FOUNDERS BANK

Washington, District of Columbia

Audited Financial Statements

December 31, 2022 and 2021

FOUNDERS
BANK

April 4, 2023

Dear Shareholders:

The year ended December 31, 2022, was a very productive one for Founders Bank. We saw the clouds of the covid pandemic lifting, followed by a rapid shift in the interest rate environment. We bolstered our balance sheet with additional capital and achieved a profitable fourth quarter. We were steadfast in our approach to credit quality and core deposit growth. A few highlights include:

- Closing a $25 million capital raise (which was oversubscribed).
- Total assets growth of 67% to $237.0 million.
- Deposit growth of 63% to $167.8 million.
- Net loan growth of 79% to $179 million.
- Profitability in the fourth quarter.

Our approach to growth has always been conservative. It's allowed us to thrive during a global pandemic, and display confidence during times of uncertainty, such as that recently experienced by the banking industry in early 2023. It's provided us with capital ratios well above regulatory requirements and access to liquidity to sustain growth. This conservative approach, along with an efficient operating structure, results in positive outcomes as evidenced by the profitable fourth quarter we recently achieved. You can see more details of our performance in the enclosed financial report.

Maintaining this success takes an exceptional team, which we have, and we continue to attract top talent in the marketplace. It also requires expanding our marketing efforts to let more businesses and the professionals who run them know about what an amazing experience it is to be a Founders Bank customer, which we will be doing in 2023. Finally, it takes expanding relationships with our existing customers and establishing relationships with shareholders who have yet to take advantage of the Founders Bank experience – we look forward to working with you!

Founders Bank is in a strong position to capture market share as we continue into 2023. Deposit growth will be a key factor to our success, and we want to emphasize again that we have the tools to provide FDIC coverage on all of your deposits up to $150 million through our relationship with the IntraFi network.

Thank you, as always, for your support, and please reach out to me at any time if we can be of assistance.

Sincerely,

Martin S. McCarthy
President and Chief Executive Officer

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Independent Auditor's Report

Board of Directors
Founders Bank
Washington, DC

Opinion

We have audited the financial statements of Founders Bank, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Founders Bank as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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In performing an audit in accordance with GAAS, we:

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

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

FORVIS, LLP

Tysons, VA
March 14, 2023

FOUNDERS BANK

Balance Sheets

December 31, 2022 and 2021

	2022	2021
Assets		
Cash and due from banks	$ 36,585,747	$ 17,840,202
Securities available for sale, at fair market value	14,425,826	18,408,672
Restricted Investments, at cost	836,200	441,300
Loans, net of allowance for loan losses of $1,890,841 for 2022 and $1,125,326 for 2021	178,952,633	99,725,087
Premises and Equipment, Net	960,586	1,036,730
Right of Use Lease Asset, Net	4,097,298	4,440,503
Accrued Interest Receivable	462,876	171,631
Other Assets	250,045	250,000
Total assets	$ 236,571,211	$ 142,314,125
Liabilities		
Noninterest Checking	$ 48,865,357	$ 20,517,437
Interest Bearing Checking	22,283,229	5,876,103
Money Market Accounts	64,948,845	63,911,565
Savings Accounts	322,676	503,484
Certificates of Deposits	31,339,660	12,387,103
Total deposits	167,759,767	103,195,692
Borrowings	18,000,000	10,500,000
Accrued Interest payable	95,971	4,068
Right of Use Lease Liability, Net	4,407,880	4,719,183
Other Liabilities	898,406	716,431
Total liabilities	191,162,024	119,135,374
Stockholders' Equity		
Preferred Stock 5,000,000 shares authorized, none issued and outstanding at December 31, 2022 and 2021	-	-
Common Stock $.01 par value, 20,000,000 shares authorized, 5,386,000 and 3,005,000 shares issued and outstanding at December 31, 2022 and 2021, respectively	53,860	30,050
Additional paid in capital	55,007,647	29,859,101
Accumulated other comprehensive loss	(2,552,543)	(314,410)
Accumulated deficit	(7,099,777)	(6,395,990)
Total stockholders' equity	45,409,187	23,178,751
Total liabilities and stockholders' equity	$ 236,571,211	$ 142,314,125

See Notes to Financial Statements.

FOUNDERS BANK

Statements of Operations

For the periods ended December 31, 2022 and 2021

	2022	2021
Interest income		
Interest and fees on loans	$ 5,943,449	$ 2,507,466
Interest on securities	189,341	154,725
Interest on deposits in other financial institutions	567,041	38,412
Total interest income	6,699,831	2,700,603
Interest Expense		
Deposits	758,304	336,478
Borrowings	357,398	684
Total interest expense	1,115,702	337,162
Net Interest Income	5,584,129	2,363,441
Provision for Loan Losses	765,515	728,362
Net Interest Income after provision for loan losses	4,818,614	1,635,079
Noninterest Income		
Service charges on deposits	37,609	26,229
Noninterest Expenses		
Salaries and benefits	3,652,838	2,737,405
Occupancy & Equipment	592,875	591,038
Data Processing	600,747	546,074
Professional services	295,268	277,731
Director Expenses	10,202	3,856
Advertising & Marketing	17,326	11,383
Business Development	36,268	3,334
Insurance	42,758	38,177
FDIC Insurance	108,000	64,282
Other expenses	189,764	149,276
Total noninterest expenses	5,546,046	4,422,556
Net Loss before income taxes	$ (689,823)	$ (2,761,248)
Income taxes	13,964	-
Net Loss	$ (703,787)	$ (2,761,248)

See Notes to Financial Statements.

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Statements of Comprehensive Income (Loss)

For the periods ended December 31, 2022 and 2021

	2022	2021
Comprehensive Income (Loss)		
Net Loss	$ (703,787)	$ (2,761,248)
Other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale	(2,238,133)	(404,615)
Tax effect, net of valuation allowance	-	84,968
Total other comprehensive income (loss)	(2,238,133)	(319,647)
Comprehensive Loss	$ (2,941,920)	$ (3,080,895)

See Notes to Financial Statements.

Statements of Changes in Stockholders' Equity

For the periods ended December 31, 2022 and 2021

	Common Shares Outstanding		Common Stock		Additional Paid In Capital ("APIC")		Accumulated Deficit		Accumulated Other Comprehensive Income		Total
Balance at December 31, 2020	3,000,000	$	30,000	$	29,740,645	$	(3,634,742)	$	5,237	$	26,141,140
Issuance of common stock	5,000		50		49,950		-		-		50,000
Net Loss	-		-		-		(2,761,248)		-		(2,761,248)
Other comprehensive loss	-		-		-		-		(319,647)		(319,647)
Stock-based compensation	-		-		68,506		-		-		68,506
Balance at December 31, 2021	3,005,000	$	30,050	$	29,859,101	$	(6,395,990)	$	(314,410)	$	23,178,751
Issuance of common stock	2,381,000		23,810		24,976,690		-		-		25,000,500
Direct costs associated with issuance of common stock					(31,285)						(31,285)
Net Loss	-		-		-		(703,787)		-		(703,787)
Other comprehensive loss	-		-		-		-		(2,238,133)		(2,238,133)
Stock-based compensation	-		-		203,141		-		-		203,141
Balance at December 31, 2022	5,386,000	$	53,860	$	55,007,647	$	(7,099,777)	$	(2,552,543)	$	45,409,187

See Notes to Financial Statements.

FOUNDERS BANK

Statements of Cash Flows

For the periods ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Reconciliation of net loss to net cash (used in) operating activities:		
Net loss	$ (703,787)	$ (2,761,248)
Net accretion of discount on investment securities	61,955	105,199
Depreciation and amortization	158,739	151,504
Lease asset amortization	343,205	340,298
Provision of loan losses	765,515	728,362
Stock based compensation expense	203,141	68,506
Changes in assets and liabilities:		
(Increase) in accrued interest	(291,245)	(123,907)
(Increase) in other assets	(45)	(26,079)
Increase in accrued expenses and other liabilities	(37,425)	(139,512)
Net cash provided by (used in) operating activities	$ 500,053	$ (1,656,877)
Cash Flow from Investing Activities		
Purchase of securities available for sale	$ -	$ (13,055,845)
Proceeds from maturities and prepayments of securities available for sale	1,682,758	5,197,697
Purchase of restricted investments	(394,900)	(441,300)
Net (increase) in loans	(79,993,061)	(66,414,988)
Purchases of premises and equipment	(82,595)	(19,323)
Net cash (used in) investing activities	$ (78,787,798)	$ (74,733,759)
Cash Flow from Financing Activities		
Net increase in demand, savings, interest bearing checking and money market deposits	$ 45,611,518	$ 47,089,381
Net increase in time deposits	18,952,557	5,457,992
Proceeds from sale of common stock, net	24,969,215	50,000
Net increase in FHLB advances	7,500,000	10,500,000
Net cash provided by financing activities	$ 97,033,290	$ 63,097,373
Net increase (decrease) in cash and cash equivalents	$ 18,745,545	$ (13,293,263)
Cash and cash equivalents, beginning of period	17,840,202	31,133,465
Cash and cash equivalents, end of period	$ 36,585,747	$ 17,840,202

See Notes to Financial Statements.

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Statements of Cash Flows (continued)
For the periods ended December 31, 2022 and 2021

		2022		2021
Supplemental disclosure of cash flow information				
Interest paid	$	1,019,731	$	333,095
Income taxes paid		13,964		-
Supplemental disclosure of noncash investing and financing activities				
Change in unrealized gain on investment securities		(2,238,133)		(319,647)

See Notes to Financial Statements.

FOUNDERS BANK

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Founders Bank (the “Bank”) was organized March 31, 2020 under the laws of the District of Columbia (“DC”) with one branch to engage in general business banking serving the community in and around the DC metropolitan area. The Bank was in organization during the period from January 2019 through March 30, 2020 doing business as a Maryland limited liability company called The Current Group, Inc (“Current Group”).

The Bank commenced regular operations on April 13, 2020 and is a member of the Federal Deposit Insurance Corporation (”FDIC”). It is subject to the regulations of the FDIC and District of Columbia Department of Insurance and Banking (“DISB”). Consequently, it will undergo periodic examinations by these regulatory authorities.

In its initial common stock offering, the Bank sold 3,000,000 shares of its common stock par value $.01 per share, at $10.00 per share. Of the proceeds, $29,970,000 was credited to additional paid in capital. The Bank completed a second common stock offering in 2022, with two closings in September and December. In this second offering, the Bank sold 2,381,000 shares of its common stock par value $.01 per share, at $10.50 per share. Of these proceeds, $24,945,405 was credited to additional paid in capital, net of direct costs.

Basis of Presentation

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (“GAAP”) and prevailing practices within the financial services industry for financial information. The more significant of these policies are summarized below.

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. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for credit losses and valuation of allowance for deferred tax assets.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, cash items in the process of clearing, federal funds sold, and interest-bearing deposits with banks with original maturities of less than 90 days. Generally, federal funds are sold as overnight investments.

Investment Securities

Investments held-to-maturity represents securities that the Company has both the intent and ability to hold until maturity. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are acquired as part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, loan demand, changes in prepayment risk and other factors. Securities available-for-sale are carried at estimated fair value, with unrealized gains or losses based on the difference between amortized cost and fair value reported as accumulated other comprehensive income (loss), net of deferred taxes, a separate component of stockholders' equity, when appropriate. Realized gains and losses, using the specific identification method, are included as a separate component of noninterest income. Related interest and dividends are included in interest income. Premiums and discounts on held-to-maturity investments are amortized to interest income using the effective interest method. Declines in the fair value of individual securities below their amortized cost that are other-than-temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or a change in management's intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Leases

Loans and leases are stated at their principal balance outstanding, plus deferred origination costs, less unearned discounts and deferred origination fees. Interest on loans and leases is credited to income based on the principal amounts outstanding. Origination fees and costs are amortized to income over the contractual life of the related loans and leases. Generally, accrual of interest on a loan or lease is discontinued when the loan or lease is delinquent more than 90 days unless the collateral securing the loan or lease is sufficient to liquidate the loan. All interest accrued but not collected for loans and leases that are placed on non-accrual or charged-off is reversed against interest income. Interest on these loans and leases is accounted for on the cash basis, until qualifying for return to accrual. Loans and leases are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers loans and leases impaired when, based on current information, it is probable that the Bank will not collect all principal and interest payments according to contractual terms. Loans and leases are tested for impairment no later than when principal or interest payments become 90 days or more past due and they are placed on non-accrual. Management also considers the financial condition of the borrower, cash flows of the loan or lease and the value of the related collateral. Impaired loans and leases do not include large groups of smaller balance homogeneous loans and leases such as residential real estate and consumer installment loans which are evaluated collectively for impairment. Loans and leases specifically reviewed for impairment are not considered impaired during periods of “minimal delay” in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan or lease may be measured based on the present value of expected future cash flows discounted at the loan or lease's effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, the Bank's impairment on such loans and leases is measured by reference to the fair value of the collateral. Interest income on impaired loans and leases is recognized on the cash basis.

The segments of the Bank's loan and lease portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential mortgage loan segment is further disaggregated into two classes: first lien mortgages and second or junior lien mortgages. The commercial real estate (“CRE”) loan segment is further disaggregated into two classes; owner occupied loans and non-owner occupied loans. Non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, generally have a greater risk profile than owner occupied CRE loans.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan and lease portfolio and is based on the size and current risk characteristics of the loan and lease portfolio, an assessment of individual problem loans and leases, actual loss experience, current economic events in specific industries and geographic areas including unemployment levels and other pertinent factors including general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans and leases, estimated losses on pools of homogenous loans and leases based on historical loss experience and consideration of economic trends, all of which may be susceptible to significant change. Credit losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary.

The allowance for credit losses consists of a specific component and a nonspecific component. The components of the allowance for credit losses represent an estimation done pursuant to either the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 450 *Contingencies* or ASC Topic 310 *Receivables*. The specific component of the allowance for credit losses reflects expected losses resulting from analysis developed through credit allocations for individual loans and leases. The credit allocations are based on a regular analysis of all loans and leases over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The specific component of the allowance for credit losses also includes management's determination of the amounts necessary given concentrations and changes in portfolio mix and volume.

The nonspecific portion of the allowance is determined based on management's assessment of general economic conditions, as well as economic factors in the individual markets in which the Bank operates including the strength and timing of economic cycles and concerns over the effects of a prolonged economic downturn in the current cycle. This determination inherently involves a higher risk of uncertainty and considers current risk factors that may not have yet manifested themselves in the Bank's historical loss factors used to determine the nonspecific component of the allowance, and it recognizes knowledge of the portfolio may be incomplete. The Bank uses historic loss factors of peer banks until its own portfolio has matured. In addition to historic loss factors, the Bank's methodology for the allowance for credit losses also incorporates other risk factors that may be inherent within the portfolio segments. For each portfolio segment, in addition to the historic loss experience, the other factors that are measured and monitored in the overall determination of the allowance include:

- current delinquency experience and trends.
- trends in volume, terms of loans and loans to single borrowers.
- effects of any changes in lending policies, risk ratings and results of independent loan review.
- experience, ability, and depth of management.
- national and local economic trends, and conditions.
- credit concentrations.
- other factors that management considers relevant to the quality or performance of the portfolio.

Each of these qualitative risk factors is measured based upon data generated either internally, or in the case of economic conditions utilizing independently provided data on items such as unemployment rates, commercial real estate vacancy rates, or other market data deemed relevant to the business conditions within the markets served.

The Bank's loan and lease policies state that after all collection efforts have been exhausted, and the loan or lease is deemed to be a loss, then the remaining loan or lease balance will be charged to the Bank's established allowance for credit losses. All loans and leases are evaluated for loss potential once it has been determined that the likelihood of repayment is in doubt. When a loan is past due for at least 90 days or a deterioration in debt service coverage ratio, guarantor liquidity, or loan-to-value ratio has occurred that would cause concern regarding the likelihood of the full repayment of principal and interest, and the loan or lease is deemed not to be well secured, the loan or lease would be moved to non-accrual status and a specific reserve is established if the net realizable value is less than the principal value of the loan balance(s). Once the actual loss value has been determined, a charge-off against the allowance for credit losses for the amount of the loss is taken. Each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method. Premises and equipment are depreciated over the useful lives of the assets, which generally range from 3 to 10 years for furniture and equipment and 3 years for software. Leasehold improvements are amortized over the lesser of the life of the lease agreement or 15 years. The costs of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are included in noninterest expense.

Leases

The Company determines if an arrangement is a lease at inception. Right-of-use (“ROU”) assets and lease liabilities are presented separately on the balance sheet.

ROU assets represent the Bank’s right to use an underlying asset for the lease term, and lease liabilities represent the Bank’s obligation to make lease payments arising from the lease arrangements. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of the expected future lease payments over the remaining lease term. In determining the present value of future lease payments, the Bank uses its incremental borrowing rate based on the information available at the lease commencement date. The operating ROU assets are adjusted for any lease payments made at or before lease commencement date, initial direct costs and any lease incentives received. The Bank’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Bank will exercise such options. Lease expense is recognized on a straight line basis over the expected lease term. Lease agreements that include lease and non-lease components, such as common area maintenance charges, are accounted for separately.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Comprehensive Income/Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the balance sheet, net of the related income tax impact. Such items, along with net income, are components of comprehensive income. The Bank's sole component of accumulated other comprehensive income/loss is unrealized gains/losses on available for sale securities.

Fair Value

Fair value of financial instruments and certain other assets are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market value conditions could significantly affect the estimates.

Reclassifications

Certain reclassifications have been made to the amounts reported in prior periods to conform to the current period presentation. The reclassifications had no effect on net loss or total stockholders' equity.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, Financial Instruments - Credit Losses, Measurement of Credit Losses on Financial Instruments (Topic 326) ("ASC 326") to change the accounting for credit losses and modify the impairment model for certain debt securities. As discussed below, subsequent additional guidance related to ASC 326 has resulted in an anticipated adoption no later than periods beginning after December 15, 2022. ASC 326 introduces a new credit loss methodology which requires earlier recognition of credit losses, replacing multiple existing impairment methods in current GAAP, which generally require a loss to be incurred before it is recognized. The ASC 326 amendments require loss estimates be determined over the lifetime of the asset and broaden the information an entity must consider in developing its expected credit losses. ASC 326 does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit loss estimate based on the entity's size, complexity and risk profile. The standard will apply to the Bank's loans, unfunded loan commitments and held to maturity debt securities or other financial assets carried at amortized cost.

The Bank will apply the amendments to ASC 326 through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Bank is evaluating the implementation and possible impact of ASC 326 on the financial statements. The adoption of ASC 326 will result in a one-time adjustment in the recorded allowance for credit losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time. Management estimates the impact of adoption of ASC 326 to be between $200,000 and $400,000 that will be recorded to accumulated deficit as a one-time adjustment.

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

Note 2 - Cash and Due from Banks

Cash and cash equivalents include cash and due from banks, interest bearing deposits and federal funds sold. The Bank is required by regulations to maintain an average cash reserve balance based on a percentage of deposits. At December 31, 2022 and 2021 the requirements were satisfied by amounts on deposit with the Federal Reserve Bank and cash on hand.

Note 3 – Securities Available for Sale

The amortized cost and estimated fair values of securities available for sale are as follows:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. Government and federal agencies	$ 4,000,000	$ -	$ (469,470)	$ 3,530,530
Mortgage backed securities	7,029,215	-	(896,301)	6,132,914
Collateralized mortgage obligations	4,930,558	-	(905,541)	4,025,017
Municipals	1,018,596	-	(281,231)	737,365
Total	$ 16,978,369	$ -	$ (2,552,543)	$ 14,425,826

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. Government and federal agencies	$ 4,000,000	$ -	$ (60,836)	$ 3,939,164
Mortgage backed securities	8,265,020	-	(85,652)	8,179,368
Collateralized mortgage obligations	5,520,601	-	(200,061)	5,320,540
Municipals	1,021,038	-	(51,438)	969,600
Total	$ 18,806,659	$ -	$ (397,987)	$ 18,408,672

There were no held-to-maturity securities at December 31, 2022 or 2021. The market value of securities pledged as collateral to secure advances at the Federal Home Loan Bank of Atlanta (“FHLB”) was $7,558,590.

There were no sales or securities called during the periods ended December 31, 2022 and 2021.

Information related to unrealized losses in the investment portfolio as of December 31, 2022 and 2021 are as follows:

	December 31, 2022			
	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value
Securities of U.S. Government and federal agencies	$ -	$ -	$ (469,470)	$ 3,530,530
Mortgage backed securities	-	-	(896,301)	6,132,914
Collateralized mortgage obligations	-	-	(905,541)	4,025,017
Municipals	-	-	(281,231)	737,365
Total	$ -	$ -	$ (2,552,543)	$ 14,425,826

	December 31, 2021			
	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value
Securities of U.S. Government and federal agencies	$ (60,836)	$ 3,939,164	$ -	$ -
Mortgage backed securities	(85,652)	8,179,368	-	-
Collateralized mortgage obligations	(200,061)	5,320,540	-	-
Municipals	-	-	(51,438)	969,600
Total	$ (346,549)	$ 17,439,072	$ (51,438)	$ 969,600

Management evaluates securities for other-than-temporary impairments ("OTTI") on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the unrealized loss on securities was primarily the result of changes in market interest rates. No credit issues have been identified that cause management to believe the decline in fair value is other than temporary.

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The scheduled maturities of available for sale securities were as follows:

	Amortized Cost	Fair Value
Within 1 year	$ -	$ -
After 1 year through 5 years	4,000,000	3,530,530
After 5 years through 10 years	509,088	380,865
Over 10 years	5,440,066	4,381,517
Mortgage backed securities	7,029,215	6,132,914
Total	$ 16,978,369	$ 14,425,826

Contractual maturities of U.S. government-sponsored agencies and municipal securities at December 31, 2022 and 2021 are shown above. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

Note 4 – Loans Receivable

Major categories and balances of loans outstanding at December 31, 2022 and 2021 are as follows:

	December 31,	
	2022	2021
Real Estate:		
Construction	$ 28,400,242	$ 10,145,999
Residential - first lien	12,768,730	5,531,675
Residential - junior lien	14,307,002	9,133,724
Commercial - owner occupied	19,391,951	9,479,063
Commercial - non-owner occupied	99,922,403	63,685,521
Commercial	6,349,295	3,022,183
Consumer and other	512	1,928
	181,140,135	101,000,093
Deferred original fees, net	(296,661)	(149,680)
Allowance for loan losses	(1,890,841)	(1,125,326)
Loans receivable, net	$ 178,952,633	$ 99,725,087

There were no loans classified as impaired, nonaccrual or past due as of December 31, 2022 or 2021 or during the periods then ended. All loans were pass rated for both periods. There were no troubled debt restructures (“TDRs”) as of and for the periods then ended.

Overdrafts totaling $30 and $0 at December 31, 2022 and 2021 were reclassed from deposits to loans. The Bank makes loans to customers primarily in the Washington, D.C. metropolitan area. Although the loan portfolio is diversified, its performance will be influenced by the local and regional economy. The Bank’s loan categories are described below.

Construction – Construction loans are offered within the DC area for the construction of commercial and residential properties and include loans for the acquisition and development of land. The loan commitment on these loans often includes an interest reserve that allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan.

Residential – first lien – This type of loan contains permanent mortgage loans principally to consumers secured by residential real estate. Residential real estate loans are valued for the adequacy of repayment sources at the time of approval based upon measures including credit scores, debt-to-income ratios and collateral values.

Residential – junior liens – this category of loans includes primarily home equity loans and revolving lines of credit which are secured by residential real estate.

Commercial owner occupied real estate – commercial owner occupied real estate loans consist of commercial mortgage loans secured by owner occupied properties with funds used to conduct the borrower's operations. The primary source of repayment is the cash flow from the business and is based upon the borrower's financial health and ability of the borrower and the business to repay.

Commercial non owner occupied real estate – this category of loans consist of loans involving nonresidential investment properties such as warehouses, hotels, retail and office space. Repayments are made from an income stream or proceeds from a sale of property.

Commercial – commercial loans are made to provide funds for equipment and general business needs. The loan repayment source is cash flow from the business operations. Secured collateral may include general business assets and personal guarantees from the borrower or other principal.

Consumer and other loans – this category is typically a personal loan granted as an accommodation to an existing customer.

The following are analyses of activity in the allowance for loan losses by portfolio segment in addition to the disaggregation of the allowance and outstanding loan balances by impairment method as of and for the periods ended December 31, 2022 and 2021.

						Allowance for Loan Losses Ending Balance Evaluated for Impairment		Outstanding Loan Balances Evaluated for Impairment	
December 31, 2022	**Beginning Balance**	**Provision for Loan Losses**	**Charge-Offs**	**Recoveries**	**Ending Balance**	**Individually**	**Collectively**	**Individually**	**Collectively**
Construction	$ 89,207	$ 161,256	$ -	$ -	$ 250,463	$ -	$ 250,463	$ -	$ 28,400,242
Residential - first lien	38,722	44,275	-	-	82,997	-	82,997	-	12,768,730
Residential - junior lien	73,070	34,232	-	-	107,302	-	107,302	-	14,307,002
Commercial - owner occupied	113,749	109,258	-	-	223,007	-	223,007	-	19,391,951
Commercial - non-owner occupied	789,410	396,388	-	-	1,185,798	-	1,185,798	-	99,922,403
Commercial	21,155	17,549	-	-	38,704	-	38,704	-	6,349,295
Consumer and other	13	2,557	-	-	2,570	-	2,570	-	512
	$ 1,125,326	$ 765,515	$ -	$ -	$ 1,890,841	$ -	$ 1,890,841	$ -	$ 181,140,135

December 31, 2021	Beginning Balance	Provision for Loan Losses	Charge-Offs	Recoveries	Ending Balance	Allowance for Loan Losses Ending Balance Evaluated for Impairment: Individually	Collectively	Outstanding Loan Balances Evaluated for Impairment: Individually	Collectively
Construction	$ 7,570	$ 81,637	$ -	$ -	$ 89,207	$ -	$ 89,207	$ -	$ 10,145,999
Residential - first lien	28,088	10,634	-	-	38,722	-	38,722	-	5,531,675
Residential - junior lien	38,799	34,271	-	-	73,070	-	73,070	-	9,133,724
Commercial - owner occupied	35,771	77,978	-	-	113,749	-	113,749	-	9,479,063
Commercial - non-owner occupied	279,952	509,458	-	-	789,410	-	789,410	-	63,685,521
Commercial	6,757	14,398	-	-	21,155	-	21,155	-	3,022,183
Consumer and other	27	(14)	-	-	13	-	13	-	1,928
	$ 396,964	$ 728,362	$ -	$ -	$ 1,125,326	$ -	$ 1,125,326	$ -	$ 101,000,093

Internally assigned risk ratings assist the Bank in determining the risk profile of each loan in the loan portfolio and changes in the internally assigned risk ratings are useful in monitoring trends in loan portfolio quality. The four major categories used by the Bank are Pass, Special Mention, Substandard and Doubtful and can be described as follows:

- Pass - these loans have a risk profile which range from highest quality with minimal credit risk to loans requiring management attention but still have an acceptable risk profile and continue to perform primarily as contracted. All loans were pass rated as of December 31, 2022 and 2021.

- Special Mention - these loans have potential weaknesses which may inadequately protect the Bank's credit position at some future date. Unlike a Pass rated credit, adverse trends in the obligor's operations and/or financial position are evident, but have not yet developed into well-defined credit weaknesses. Specific negative events within the obligor or the industry may jeopardize cash flow. Highly cyclical or vulnerable to economic or market conditions. Management has potential weaknesses and backup depth is essentially absent. Borrower is taking positive steps to alleviate potential weaknesses and has the potential for improvement and upgrade. Assets which might be detailed in this category include credits with significant structural deficiencies, e.g. an inadequate loan agreement, the condition and control of collateral, failure to obtain proper documentation or any other deviation from prudent lending practices. Structural weakness could be a mismatch of projected cash flows with the loan's repayment requirements. Corrective strategy to protect the bank may be required and active management attention is warranted. Some minor delinquency may exist.

- Substandard - has a well-defined weakness or weaknesses in the primary source of repayment and undue reliance is placed on the secondary repayment sources, e.g. collateral or guarantors. No loss is expected at this time based on a current assessment of collateral values and guarantor cash flow. However, there is the distinct possibility that the bank may sustain some future loss if the credit weaknesses are not corrected. Management is inadequate to the extent that the ability of the business to continue operations is in question. Intensive effort to correct the weakness and ensure protection against loss of principal (e.g. additional collateral) is mandatory. Delinquency of principal or interest may exist.

- Doubtful - A doubtful asset has well-defined weaknesses similar to substandard assets with the added characteristic that collection or liquidation in full, on the basis of currently existing facts, conditions, and values, is highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may improve the collection or quality of the asset, its classification as a loss is deferred until its more exact status can be determined. Examples of pending factors include proposed merger, acquisition, liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. Borrower is facing extreme financial distress, bankruptcy or liquidation and prospects for recovery are limited. Loans are seriously in default and should be placed on non-accrual status. Collateral and guarantor protection is insufficient. Efforts are directed solely at retirement of debt, e.g. asset liquidation. Because of their highly questionable ability to be collected, assets rated doubtful should not remain in that category for an extended period of time.

Note 5 – Premises and Equipment

The summary of the costs and accumulated depreciation of premises and equipment are as follows:

	2022	2021
Leasehold improvements	$ 926,153	$ 926,153
Furniture and equipment	257,581	238,769
Software	154,407	125,692
Construction in progress	42,125	7,057
	$ 1,380,266	$ 1,297,671
Less: Accumulated depreciation and amortization	(419,680)	(260,941)
Premises and equipment, net	$ 960,586	$ 1,036,730

Depreciation and amortization expense for premises and equipment was $158,739 and $151,504 for the years ended December 31, 2022 and 2021, respectively.

Note 6 – Leases

The Bank adopted the requirements of ASU 2016-02, Leases (Topic 842) in 2020. The objective of this ASU, along with several related ASUs subsequently issued, is to increase transparency and comparability between organizations that enter into lease agreements. The most significant change is the requirement to recognize right of use (“ROU”) assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Bank has two operating leases on the administrative offices and bank branch with lease expirations dates of 2030 and 2032, respectively. The lease on the bank branch has two 5-year renewal options.

The Bank’s lease information is summarized below:

	2022	2021
Lease Right of Use Asset		
Lease asset	$ 5,054,226	$ 5,054,226
Less: Accumulated amortization	(956,928)	(613,723)
Net lease asset	$ 4,097,298	$ 4,440,503

	2022		2021	
Lease Liability				
Lease Liability	$	5,054,226	$	5,054,226
Less: Accumulated amortization		(646,346)		(335,043)
Net lease liability	$	4,407,880	$	4,719,183

Operating lease and rent expense relating to the leases mentioned above totaled $440,506 and $448,975 during the periods ended December 31, 2022 and 2021, respectively. The Bank's lease liability was determined using a weighted average incremental borrowing rate of 1.61% for the periods ended December 31, 2022 and 2021. The weighted average lease term for the operating leases was 10 years for the periods ended December 31, 2022 and 2021.

Future minimum payments for operating leases with initial or remaining terms of one year or more are as follows:

Lease Payment Obligations		
2023	$	392,903
2024	$	402,749
2025	$	412,841
2026	$	423,135
2027	$	433,682
Due thereafter	$	2,947,763
Less: Interest	$	(605,193)
	$	4,407,880

Note 7 – Time Deposits

The aggregate amount of time deposits in denominations that met or exceeded the FDIC insurance limit of $250,000 or more was $9,455,609 and $5,382,519 at December 31, 2022 and 2021.

At December 31, 2022, the scheduled maturities of all time deposits are as follows:

2023	$	30,071,225
2024		429,589
2025		511,227
2026		327,619
	$	31,339,660

There are no time deposits with maturities after 2026.

Note 8 – Borrowings

The Bank was indebted to the Federal Home Loan Bank ("FHLB") in the form of advances for $18,000,000 as detailed below:

	Balance	Interest Rate	Maturity Date
Daily Rate Credit	$ 12,000,000	4.57%	11/24/2023
2-year Fixed Rate	1,500,000	0.96%	12/29/2023
3-year Fixed Rate	1,500,000	1.22%	12/29/2024
5-year Fixed Rate	3,000,000	1.47%	12/29/2026
	$ 18,000,000		

The daily rate credit advances listed above can be repaid at any time with no penalty. The Bank's available line of credit with the FHLB is limited to 25% of the Bank's total assets as of the most recent regulatory Call Report for September 2022 and was $54,159,000 at December 31, 2022. All borrowings from the FHLB are secured by a blanket lien on qualified collateral of residential 1-4 family, HELOC's and multi-family loans totaling $39,605,981 at December 31, 2022.

The Bank also has available lines of credit of $14,000,000 with other correspondent banks. There were no outstanding line of credit balances at December 31, 2022 and December 31, 2021.

Note 9 – Related Party Transactions

In the normal course of business, loans are made to officers, directors, vendors and majority shareholders of the Bank, as well as to their related interests. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations and do not involve more than the normal risk of collectability.

Officers, directors and their affiliates had credit outstanding with the Bank of $3,415,000 and $1,015,000 at December 31, 2022 and 2021. The Bank has also extended two lines of credit to vendors who provide professional services to the Bank. The total available lines of credit are $2,500,000 and $500,000 at December 31, 2022 and 2021. There have been no line disbursements and balances were $0 at December 31, 2022 and 2021.

Deposits from related parties held by the Bank were $7,915,778 and $9,351,810 at December 31, 2022 and December 31, 2021, respectively.

The Company's headquarters is owned by a shareholder. Payments made in accordance with the lease were $301,531 and $251,058 for the years ended December 31, 2022 and December 31, 2021.

Note 10 – Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material impact on the Bank's financial statements. Effective March 31, 2020 (inception), the

Bank has opted into the Community Bank Leverage Ratio Framework ("CBLR"). The CBLR is an alternative framework that can be used to determine if the Bank is "well capitalized". The CBLR simplifies the determination of whether or not a bank meets the applicable capital requirements by allowing the determination to be made by calculating a single capital measure. In order to continue to use the measure, the bank must have total assets less than $10 billion and certain other requirements, and maintain a CBLR ratio of at least 9%. The bank is allowed a two quarter grace period if either of those requirements are not met, and the CBLR does not fall below 8%. If the requirements are not met by the end of the grace period, the bank must calculate all the required capital measures under the regulatory framework to determine whether or not it meets capital adequacy guidelines.

Management believes, as of December 31, 2022 and 2021, the Bank meets all capital adequacy requirements to which it is subject. The Bank's capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
As of December 31, 2022:						
CBLR/Tier 1 Capital (to Average Assets)	$ 47,961	21.31%	$ 9,003	4.00%	$ 11,253	5.00%
As of December 31, 2021:						
CBLR/Tier 1 Capital (to Average Assets)	$ 23,493	17.35%	$ 940	4.00%	$ 1,175	5.00%

Note 11 – Income Taxes

Operating loss carryforwards:

The Bank has a loss carryforward as of December 31, 2022 of approximately $4,513,778 and $7,417,617 for federal and state income tax purposes, respectively, that may be used to offset future taxable income. If not previously utilized, the state loss carryforward will begin to expire in 2035. The federal loss carryforward can be carried forward indefinitely.

Current and deferred income tax components:

Income tax expense was $13,964 and $0 for the periods ended December 31, 2022 and 2021.

Deferred income tax analyses:

The significant components of deferred tax assets at December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Deferred Tax Assets		
Bad Debt Expense	$ 533,573	$ 315,601
Compensation Accruals	67,034	34,257
ASC 842- Lease Liability	1,334,811	1,423,111
Equity Compensation	3,826	941
Pre-Opening Costs	181,537	195,148
State Depreciation Adjustment	41,752	48,923
State NOL Carryforwards	287,348	298,915
Federal NOL Carryforwards	947,893	1,029,630
Charitable Contribution Carryforward	830	2,469
Unrealized Gain/Loss on AFS securities	720,298	83,577
Valuation Allowance - Unrealized Gain/Loss	(720,298)	(83,577)
Valuation Allowance	(1,880,701)	(1,769,677)
	$ 1,517,903	$ 1,579,318
Deferred Tax Liabilities		
Property and equipment	$ (182,431)	$ (210,416)
Deferred Loan Costs	(158,667)	(106,013)
ASC 842- Lease Asset	(1,156,209)	(1,245,351)
Prepaid Expenses	(20,596)	(17,538)
	$ (1,517,903)	$ (1,579,318)
Net deferred tax assets (liabilities)	$ -	$ -

The income tax expense for the periods ended December 31, 2022 and 2021, is reconciled to the amount of income tax computed at the federal statutory rate of 21 percent on income before income taxes as follows:

	2022	2021
Federal tax (benefit) at statutory rate	21.00%	21.00%
State tax expense (benefit)	6.48%	8.78%
Federal effect of state tax expense (benefit)	-1.36%	-1.84%
Other deferred taxes	0.00%	0.34%
Other permanent differences	-7.14%	-0.52%
Increase in valuation allowance related to current period P&L activity	-21.00%	-27.76%
Total tax expense	-2.02%	0.00%

The Bank has analyzed the tax positions taken or expected to be taken in its returns and concluded it has no liability related to uncertain tax positions.

The Bank files tax returns with the federal government, District of Columbia, and the states of Maryland and Virginia.

Note 12 – Benefits Plans

The Bank started a 401K plan in late September 2020 whereby substantially all employees participate in the plan. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Bank matches dollar for dollar up to 1%, and then 50% of contributions up to another 5%. For the years ended December 31, 2022 and 2021, expenses attributable to the plan were $84,379 and $73,867, respectively.

Note 13 – Stock-Based Compensation

The Bank's 2021 Equity Incentive Plan ("the Plan") permits the granting of stock options, restricted stock, restricted stock units and non-qualified stock options to employees and directors for up to 600,000 shares of Founders Bank common stock. Option awards for employees are generally granted with an exercise price equal to the market price of the Bank's stock at the date of grant, generally vest based on three or five years of continuous service and have ten-year contractual terms. Option awards for directors generally vest over five years and have ten-year contractual terms. At December 31, 2022, 279,702 shares were available to grant under the Plan.

The fair value of each option award is estimated on the date of the grant using a Black-Scholes option valuation model for determining fair value. The model uses the following weighted average assumptions:

- Dividend yield – calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant
- Expected life (term of the option) – based on the average of the contractual life and vesting schedule for the respective options
- Expected volatility – based on the monthly historical volatility of the stock price of similar banks over the expected life of the options
- Risk-free interest rate – based upon the U.S. Treasury bill rate in effect at the time of the grant for bonds with a maturity equal to the expected life of the options

	2022	**2021**
Dividend yield	0%	0%
Expected life in years	7.3 years	7.2 years
Expected volatility	25%	25%
Risk-free interest rate	2.47%	1.25%

A summary of option activity under the Plan as of December 31, 2022 is as follows:

	Shares	Weighted Average Exercised Price
Outstanding at January 1, 2022	181,149	$ 10.00
Granted	139,149	$ 10.00
Exercised	-	$ -
Forfeited or expired	-	$ -
Outstanding at December 31, 2022	320,298	$ 10.00
Exercisable at December 31, 2022	-	$ -

Unamortized stock-based compensation related to non-vested share-based compensation arrangements granted under the Plan as of December 31, 2022 and 2021 was $730,796 and $468,812, respectively. Forfeitures are recognized as they occur. During 2022, there were no forfeitures of common stock awards. For the years ended December 31, 2022 and 2021 the Bank recognized $203,141 and $68,506 in stock-based compensation expense, respectively.

Note 14 – Warrants

In connection with the initial stock offering, the Bank issued warrants to the original director and non-director organizers of the bank that vested immediately. The fair value of director awards was treated as compensation expense and the organizer awards were treated as part of stockholders' equity. The nondirector organizer grants were a warrant to purchase 1,000 shares of the Bank's common stock at an exercise price of $10.00 per share with an expiration date of March 31, 2030. The director organizer grants were a warrant to purchase 1,400 shares of the Bank's common stock at the same price and expiration as the nondirector warrants above. All warrants of 22,800 remain outstanding at December 31, 2022. The weighted average fair value of the warrants granted was $2.27 per share based on volatility of 25%, 5-year average life and risk-free interest rate of .37%.

Note 15 – Financial Instruments with Off-Balance Sheet Risk and Contingencies

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments may include commitments to extend credit, standby letters of credit and purchase commitments. The Bank uses these financial instruments to meet the financing needs of its customers. Financial instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These do not represent unusual risks, and management does not anticipate any losses which would have a material effect on the accompanying financial statements.

Outstanding loan commitments at December 31 of each year were as follows:

	2022	2021
Unfunded loan commitments	$ 11,531,305	$ 5,433,560
Unused lines of credit	36,804,308	33,272,812
Letters of credit	257,810	-
	$ 48,593,423	$ 38,706,372

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. The Bank generally requires collateral to support financial instruments with credit risk on the same basis as it does for on-balance sheet instruments. The collateral is based on management's credit evaluation of the counterparty. Commitments 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. Each customer's credit-worthiness is evaluated on a case-by-case basis.

The Bank maintains it cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks exceeded the federally insured limits at December 31, 2022 is $248,923.

In the normal course of business, the Bank may be involved in litigation arising from banking, financial and other activities it conducts. Management does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on the Bank's financial condition, operating results or liquidity.

Note 16 – Fair Value of Financial Instruments

FASB ASC Topic 820 "Fair Value Measurements" defines fair value 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. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Under FASB ASC Topic 820, the Bank groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These hierarchy levels are:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active 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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment securities available-for-sale:

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U. S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities.

General:

The Bank has no assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021. The Bank has no liabilities carried at fair value or measured at fair value on a recurring or nonrecurring basis. Below is a summary of assets carried at fair value or measured at fair value on a recurring basis:

	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2022				
Securities of U.S. Government and federal agencies	$ 3,530,530	$ -	$ 3,530,530	$ -
Mortgage backed securities	6,132,914	-	6,132,914	-
CMO's	4,025,017	-	4,025,017	-
Municipals	737,365	-	737,365	-
	$ 14,425,826	$ -	$ 14,425,826	$ -

	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2021				
Securities of U.S. Government				
and federal agencies	$ 3,939,164	$ -	$ 3,939,164	$ -
Mortgage backed securities	8,179,368	-	8,179,368	-
CMO's	5,320,540	-	5,320,540	
Municipals	969,600	-	969,600	-
	$ 18,408,672	$ -	$ 18,408,672	$ -

Note 17 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. Management has reviewed events occurring through March 14, 2023, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

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