Highlands Community Bank

2023 ANNUAL REPORT

2023 Annual Report

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Dear Fellow Shareholder:

The year 2023 can best be described as a year of headwinds and challenges for Highlands Community Bank. As anticipated, the rising interest rate environment proved to be challenging for the bank with interest expense increasing $1.04 million or 94.02% while interest income increased $752 thousand or 9.54%. In addition to driving our interest expense higher, the rate environment also caused our total assets to decrease by $1.020 million or -0.51%. Additionally, the Bank's President and CEO resigned on February 23, 2023, and H.C. Rhodes stepped into the Interim CEO role while the Board of Directors conducted a comprehensive nationwide search for a new leader for the Bank. The Board of Directors selected Robert E. Hemsath, an experienced community bank CEO for the past 25 years, to become the President and CEO for Highlands Community Bank effective January 11, 2024.

Despite these challenges, the Bank produced earnings of $1,097,346 which amounted to $0.74 per share. We also increased total revenues to $9.5 million which was 9.35% over what was produced in 2022. However, deposits decreased to $181.8 million which was a decline of $2.7 million, or -1.47%, from the previous year-end.

As we enter 2024, the Bank will be presented with different challenges as the transition to new management takes place, the bank undertakes an upgrade to our technology, and the effects of higher interest rates and persistently higher inflation than the Federal Reserve's target rate is felt throughout the economy. However, Your Bank will continue to adapt and adjust to current conditions and continue to provide high quality service to the customers in our markets.

Thank you, again, for your commitment to Highlands Community Bank and for understanding the importance of having a local community bank in our community. Your continued dedication and support enable Your Bank to continue investing in your community. We look forward to working with you in 2024 towards an even more prosperous year!

Best Regards,

Michael H. Persinger

Michael Persinger
Chairman of the Board of Directors

Balance Sheets

December 31, 2023 and 2022

	2023	2022
Assets		
Cash and due from banks	$ 1,599,294	$ 3,256,259
Interest-bearing deposits with banks	889,000	13,000
Certificates of deposit	4,500,000	5,750,000
Cash and cash equivalents	6,988,294	9,019,259
Investment securities available for sale, at fair value	73,676,248	76,783,393
Investment securities held-to-maturity, at amortized cost. Fair value of $1,881,173 and $1,890,136 at December 31, 2023 and 2022, respectively	2,000,000	2,000,000
Restricted securities, at cost	308,900	307,600
Loans, net of allowance for loan losses of $1,285,836 in 2023 and $1,150,202 in 2022	106,136,043	101,802,637
Property and equipment, net	2,106,349	1,881,701
Bank owned life insurance	5,154,610	5,025,551
Other real estate owned, net	33,278	161,326
Accrued interest receivable	875,979	882,584
Other assets	2,172,259	2,605,951
Total assets	$ 199,451,960	$ 200,470,002
Liabilities and Stockholders' Equity		
Liabilities		
Noninterest-bearing deposits	$ 37,727,322	$ 38,637,817
Interest-bearing deposits	144,054,263	145,852,996
Total deposits	181,781,585	184,490,813
Accrued interest payable	264,493	113,218
Other liabilities	474,615	494,517
Total liabilities	182,520,693	185,098,548
Commitments and contingencies		
Stockholders' equity		
Common stock, $2.50 par value; 10,000,000 shares authorized; 1,482,720 and 1,481,032 shares issued and outstanding at December 31, 2023 and 2022, respectively	3,706,800	3,702,580
Surplus	3,836,641	3,796,973
Retained earnings	15,460,760	15,343,523
Accumulated other comprehensive (loss)	(6,072,934)	(7,471,622)
Total stockholders' equity	16,931,267	15,371,454
Total liabilities and stockholders' equity	$ 199,451,960	$ 200,470,002

See Notes to Financial Statements

Statements of Income

For the years ended December 31, 2023 and 2022

	2023	2022
Interest income		
Loans and fees on loans	$ 6,461,622	$ 5,867,541
Investment securities, taxable	1,831,558	1,666,218
Investment securities, non-taxable	165,657	193,235
Deposits with banks	187,012	165,998
Total interest income	8,645,849	7,892,992
Interest expense		
Deposits	2,100,666	1,085,516
Federal funds purchased	41,758	18,723
Total interest expense	2,142,424	1,104,239
Net interest income	6,503,425	6,788,753
Provision for credit losses	528,135	335,000
Net interest income after provision for credit losses	5,975,290	6,453,753
Noninterest income		
Service charges on deposit accounts	278,824	280,875
Other service charges and fees	428,814	388,549
Other income	17,064	18,605
Income from bank owned life insurance	129,058	121,363
Gains on sales of investment securities available for sale	16,525	-
Total noninterest income	870,285	809,392
Noninterest expense		
Salaries and employee benefits	2,540,354	2,380,019
Occupancy	165,861	155,891
Equipment	185,080	162,462
State assessments	237,910	231,000
Data processing expense	1,159,940	1,005,939
FDIC insurance premium	71,860	48,920
Professional fees	255,858	244,067
(Gains)/losses on sale and write-downs of other real estate owned, net	(9,912)	76,950
Other expense	932,438	856,205
Total noninterest expense	5,539,389	5,161,453
Net income before income taxes	1,306,186	2,101,692
Income tax expense	208,840	377,755
Net income	$ 1,097,346	$ 1,723,937
Basic and diluted earnings per share	$ 0.74	$ 1.16
Dividends declared per share	$ 0.61	$ 0.60
Weighted average common shares outstanding - basic and diluted	1,482,443	1,481,032

See Notes to Financial Statements

Statements of Comprehensive Income (Loss)

For the years ended December 31, 2023 and 2022

	2023	2022
Net income	$ 1,097,346	$ 1,723,937
Other comprehensive income (loss):		
Adjustments related to investment securities available for sale:		
Unrealized gains (losses) arising during the period	1,787,017	(10,191,879)
Tax effect	(375,274)	2,140,296
Reclassification of realized gains on sales of investment securities during the period	(16,525)	(272)
Tax related to realized gains	3,470	57
Total other comprehensive income (loss)	1,398,688	(8,051,798)
Total comprehensive income (loss)	$ 2,496,034	$ (6,327,861)

See Notes to Financial Statements

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2023 and 2022

	Common Stock				Accumulated Other Comprehensive	
	Shares	Amount	Surplus	Retained Earnings	Income (Loss)	Total
Balance, December 31, 2021	1,481,032	$ 3,702,580	$ 3,796,973	$ 14,508,205	$ 580,176	$ 22,587,934
Net income	-	-	-	1,723,937	-	1,723,937
Other comprehensive loss	-	-	-	-	(8,051,798)	(8,051,798)
Stock issued under stock award plan	1,831	4,578	41,197	-	-	45,775
Stock purchased from shareholders	(1,831)	(4,578)	(41,197)	-	-	(45,775)
Cash dividends	-	-	-	(888,619)	-	(888,619)
Balance, December 31, 2022	1,481,032	$ 3,702,580	$ 3,796,973	$ 15,343,523	$ (7,471,622)	$ 15,371,454
Balance, December 31, 2022	1,481,032	$ 3,702,580	$ 3,796,973	$ 15,343,523	$ (7,471,622)	$ 15,371,454
Net income	-	-	-	1,097,346	-	1,097,346
Other comprehensive income	-	-	-	-	1,398,688	1,398,688
Stock issued under stock award plan	1,688	4,220	39,668	-	-	43,888
Impact of adoption of ASU 2016-13	-	-	-	(75,650)	-	(75,650)
Cash dividends	-	-	-	(904,459)	-	(904,459)
Balance, December 31, 2023	1,482,720	$ 3,706,800	$ 3,836,641	$ 15,460,760	$ (6,072,934)	$ 16,931,267

See Notes to Financial Statements

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	$ 1,097,346	$ 1,723,937
Adjustments to reconcile net income		
to net cash provided by operations:		
Property and equipment depreciation and amortization	144,196	140,326
Provision for credit losses	528,135	335,000
Stock award expense	43,888	45,775
Deferred tax expense	35,656	59,475
Net realized gains on sales of investment securities available for sale	(16,525)	-
Write-downs of other real estate owned	-	80,800
Gains on sales of other real estate owned	(9,912)	(3,849)
(Accretion)/Amortization of premium on investment securities, net	(40,710)	28,582
Income from bank owned life insurance	(129,058)	(121,363)
Changes in assets and liabilities:		
Accrued interest receivable	6,605	(110,159)
Other assets	46,341	70,033
Accrued interest payable	151,275	3,876
Other liabilities	(85,057)	790
Net cash flows provided by operating activities	1,772,180	2,253,223
Cash flows from investing activities		
Purchases of investment securities available for sale	(1,457,309)	(31,217,257)
Sales, maturities, calls and paydowns of investment securities available for sale	6,392,181	15,437,803
Purchases of restricted equity securities	(1,300)	(800)
Purchases of property and equipment	(368,845)	(55,201)
Proceeds from sales of other real esate owned	154,326	150,797
Net (increase) in loans	(4,908,511)	(3,110,437)
Net cash flows used in investing activities	(189,458)	(18,795,095)
Cash flows from financing activities		
Net (decrease) increase in noninterest-bearing deposits	(910,495)	8,316,844
Net (decrease) increase in interest-bearing deposits	(1,798,733)	11,044,768
Common stock repurchased	-	(45,775)
Dividends paid	(904,459)	(888,619)
Net cash flows (used in) provided by financing activities	(3,613,687)	18,427,218
Net (decrease) increase in cash and cash equivalents	(2,030,965)	1,885,346
Cash and cash equivalents, beginning	9,019,259	7,133,913
Cash and cash equivalents, ending	$ 6,988,294	$ 9,019,259
Supplemental disclosure of cash flows information		
Interest paid	$ 1,991,149	$ 1,100,363
Income taxes paid	$ 179,348	$ 344,791
Supplemental disclosure of noncash activities		
Unrealized gains (losses) on investment securities available for sale, net	$ 1,770,492	$ (10,192,151)
Transfer of foreclosed loans to other real estate owned	$ 16,366	$ 319,795

See Notes to Financial Statements

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Highlands Community Bank (the "Bank") was organized and incorporated under the laws of the State of Virginia on May 21, 2001 and commenced operations on September 16, 2002. The Bank currently serves Alleghany County, Virginia, the City of Covington, Virginia, the Town of Clifton Forge, Virginia and surrounding areas. As a state chartered bank which is a member of the Federal Reserve System, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions, the Federal Deposit Insurance Corporation and the Federal Reserve Board.

Basis of Presentation

The financial statements as of December 31, 2023 have been prepared by the management of Highlands Community Bank pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with United States Generally Accepted Accounting Principles ("GAAP") for interim financial information. The accounting and reporting policies of the Bank follow generally accepted accounting principles and general practices within the financial services industry. Certain items in the prior period financial statements have been reclassified to conform to the current presentation. The accounting and reporting policies of the Bank follow generally accepted accounting principles and general practices within the financial services industry.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 change relate to the determination of the allowance for loan losses. In connection with the determination of the allowances for losses, management obtains independent appraisals for significant properties.

Substantially all of the Bank's loan portfolio consists of loans in its market area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio are susceptible to changes in local market conditions. The regional economy is diverse, but influenced by the manufacturing and retirement segments and to an extent by the tourism and agricultural segments.

While management uses available information to recognize loan losses, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Bank's allowances for loan and losses. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowances for loans may change materially in the near term

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

Correction of Prior Period Immaterial Error

During 2023, the Bank corrected an immaterial accounting error related to expenses resulting from the addition of a credit card program along with a debit card reward program. The implementation and ongoing fees relating to these programs were setup to automatically draft from an internal deposit account which resulted in a misstatement as shown below in greater detail. To correct this immaterial error, the Bank recorded an adjustment during the third quarter of 2023. As of and for the period ended December 31, 2023, the error has been corrected as reflected in this Form 10-K.

In evaluating whether the previously issued Financial Statements were materially misstated for the annual period prior to December 31, 2022, the Bank applied the guidance of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 250, *Accounting Changes and Error Corrections*, SEC Staff Accounting Bulletin ("SAB") Topic 1.M, *Assessing Materiality,* and SAB Topic 1.N, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* and concluded that the effect of the errors on prior period annual financial statements was immaterial. The guidance states that prior-period misstatements which, if corrected in the current year would materially misstate the current year's financial statements, must be corrected by adjusting prior year financial statements, even though such correction previously was and continues to be immaterial to the prior-year financial statements. Correcting prior-year financial statements for such immaterial misstatements does not require previously filed reports to be amended. The impact on the Balance Sheet is shown below. Other than these statements, the Statements of Comprehensive Loss, Statements of Changes in Stockholders' Equity, Statements of Cash Flows, Note 2 – Earnings Per Share, Note 4 – Allowance for Credit Losses, and Note 5 – Fair Value were also impacted and have been appropriately updated in this Form 10-K.

The following table shows the financial statement amounts as previously reported and as revised as of December 31, 2022:

	As Previously Reported	2022 Adjustments	As Revised
Balance Sheet			
Assets			
Loans	$ 101,912,870	$ (110,233)	$ 101,802,637
Other assets	2,586,610	19,341	2,605,951
Total assets	**$ 200,560,894**	**$ (90,892)**	**$ 200,470,002**
Liabilities and Stockholders' Equity			
Stockholders' equity			
Retained earnings	$ 15,434,415	$ (90,892)	$ 15,343,523
Total stockholders' equity	15,462,346	(90,892)	15,371,454
Total liabilities and stockholders' equity	**$ 200,560,894**	**$ (90,892)**	**$ 200,470,002**

	As Previously Reported	2022 Adjustments	As Revised
Income Statement			
Noninterest Expense			
Data processing expense	$ 977,373	$ 28,566	$ 1,005,939
Other expense	776,581	79,624	856,205
Total noninterest expense	5,053,263	108,190	5,161,453
Net income before taxes	2,209,882	(108,190)	2,101,692
Income tax expense	395,053	(17,298)	377,755
Net Income	**$ 1,814,829**	**$ (90,892)**	**$ 1,723,937**
Basic and diluted earnings per share	**$ 1.23**	**$ (0.06)**	**$ 1.16**

Note 1. Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions “cash and due from banks”, “interest-bearing deposits with banks”, and “certificates of deposits with banks”.

Trading Activities

The Bank does not hold securities for short-term resale and, therefore, does not maintain a trading securities portfolio.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity or trading, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive (loss) income.

For debt securities available-for-sale (“AFS”), impairment is recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more-likely-than-not that the Bank will be required to sell the security before recovery, the Bank evaluates unrealized losses to determine whether a decline in fair value below amortized cost basis is a result of a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security, or other factors such as changes in market interest rates. If a credit loss exists, an allowance for credit losses (“ACL”) is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the specific security’s amortized cost basis exceeds its fair value.

Changes in the ACL are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value of debt securities AFS not resulting from credit losses are recorded in other comprehensive income (loss). The Bank regularly reviews unrealized losses in its investments in securities and cash flows expected to be collected from impaired securities based on criteria including the extent to which market value is below amortized cost, the financial health of and specific prospects for the issuer, the Bank’s intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Any equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. Restricted securities are carried at cost and are periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on equity securities is recognized in earnings.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their adjusted outstanding principal amount. Adjustments include charge-offs, the allowance for loan losses and deferred fees.

Loan origination fees are deferred and recognized as an adjustment of the yield of the related loan.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized according to the cost recovery method. When facts and circumstances indicate the borrower has regained the ability to meet required payments the loan is returned to accrual status. Previously lost interest during non-accrual is deferred and recognized over the remaining life of the loan. Past due status of loans is based on contractual terms.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Loans Receivable, continued

The loan portfolio is comprised of the following classes:

- Residential real estate construction loans carry risks that the home will not be finished according to schedule, will not be finished according to the budget and the value of the collateral, at any point in time, may be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Commercial real estate loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project.
- Commercial, industrial and agricultural loans carry risks associated with the successful operation of a business. Typically, repayment is dependent on the cash flow of the business, and is secured by business assets, such as accounts receivable, equipment, and inventory. There is risk associated with the value of the collateral which may depreciate over time and cannot be appraised with as much precision.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral (e.g., rapidly depreciating assets such as automobiles), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

Allowance for Credit Losses – Held-to-Maturity Securities

The Bank had one corporate debt security held to maturity as of December 31, 2023 which was a subordinated note with another financial institution. Management individually monitors the financial condition of the institution on a quarterly basis to determine the credit risk. There have been no late payments to date. Changes in the allowance for credit loss are recorded as provision for credit losses in the Consolidated Statements of Income. The Bank has no allowance for credit losses recorded on the held-to-maturity security as of December 31, 2023 or upon adoption of ASC 326.

Allowance for Credit Losses – Available For Sale Securities

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

In evaluating impairment, the Bank considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers’ financial condition, among other factors. If the Bank determines a credit impairment, the ACL on securities available for sale would be established through a provision for credit losses on securities available for sale in the Statement of Income. If management believes it has confirmed that the loss on a security is uncollectible, or when either of the criteria regarding intent or requirement to sell is met, the loss is charged against the ACL. Accrued interest receivable totaled $421 thousand and is excluded from the estimate of credit losses.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Allowance for Credit Losses – Loans ("ACLL")

The Bank estimates the ACLL based on amortized cost basis, which is the amount at which the loan is originated, adjusted for net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Bank has policies in place to reverse accrued interest in a timely manner. Therefore, the Bank has made policy election to exclude accrued interest from the measurement of the ACLL. Intrinsic to the Bank's policy on estimating the ACLL are policies regarding loan pools, nonaccruals, past due status, collateral valuation, charge-offs and risk ratings.

The Bank measures expected credit losses on loans on a collective (pool) basis, when the loans share similar risk characteristics, such as collateral type and intended use, repayment source, and (if applicable) the borrower's business model. The Bank has identified the following pools of loans with similar risk characteristics for measuring expected credit losses:

Automobile	Consumer
Commercial and industrial	Home equity
Commercial real estate, non-owner occupied	Multifamily
Commercial real estate, owner occupied	Residential
Construction	

Previously the Bank had loan pools broken out into commercial and industrial, real estate construction and land development, real estate 1-4 family residential and multifamily, real estate nonfarm nonresidential and consumer. The new pools still include commercial and industrial but break out automobile (formerly included with consumer), commercial real estate, non-owner occupied (formerly included with real estate nonfarm, nonresidential), commercial real estate owner occupied (formerly included with real estate nonfarm, nonresidential), construction (formerly included with real estate construction and land development), consumer (formerly included with consumer category that also included automobile), home equity (formerly included with real estate 1-4 family residential and multifamily), multifamily (formerly included with real estate 1-4 family residential and multifamily) and residential (formerly included with real estate 1-4 family residential and multifamily).

The Bank's methodologies for estimating the ACLL consider available relevant information about the collectability of cash flows, including historical losses, reasonable and supportable forecasts of economic conditions, and current economic and portfolio conditions. The difference between cash flow estimates and amortized cost is the ACLL.

The Bank uses a Lifetime probability of default and loss given default ("PD/LGD") Model which is a model that uses PD and LGD rates recognized over the life of loans in a pool historically and uses those rates to forecast defaults and losses as the loans go through their life cycle. Default is defined as full or partial charge-off, nonaccrual status or past due 90 days or more. PDs for each pool are calculated using the Bank's historical data to ensure a full economic cycle is reflected in the estimate. PDs are then adjusted for the forecast.

The results of discounted cash flows ("DCF") calculations are modified by allocations for qualitative factors to account for changes in variables that may affect credit risk. The Bank considers and allocates for changes in lending policies, management experience, economic conditions, loans past due, competitive, legal and regulatory environments and other factors. Loans that do not share risk characteristics are evaluated on an individual basis. The Bank designates loans that have been determined to meet the regulatory definitions of "special mention" or "classified" (together known as"criticized") as individually evaluated. The fair value of individually evaluated loans is measured using the fair value of collateral ("collateral method") or the DCF.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Allowance for Credit Losses – Loans (“ACLL”), continued,

The collateral method is applied to individually evaluated loans for which foreclosure is probable. The collateral method is also applied to individually evaluated loans when borrowers are experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral (“collateral dependent”). When repayment is expected to be from the operation of the collateral, the ACLL is calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, the ACLL is calculated as the amount by which the loan’s amortized cost basis exceeds the fair value of the underlying collateral less estimated cost to sell. The ACLL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan. The DCF method is applied to individually evaluated loans that do not meet the criteria for collateral method measurement.

Expected credit losses are reflected in the ACLL through a charge to credit loss expense. When the Bank deems all or a portion of a loan to be uncollectible the appropriate amount is written off against the ACLL. The Bank applies judgement to determine when a financial asset is deemed uncollectible; however, generally speaking, an asset will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACLL when received.

ASU 2022-02: On January 1, 2023, the Bank adopted ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standards (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings (TDR's) by creditors that have adopted the CECL model and enhance the disclosure requirements for certain loan refinancings by creditors when a borrower is experiencing financial difficulty. In addition, the amendments require that the Bank disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Bank adopted the standard prospectively and it did not have a material impact on the financial statements.

Stock Compensation Plans

The Bank recognizes compensation cost related to share-based payment transactions. Generally accepted accounting principles requires entities to measure the cost of employee services received in exchange for stock based on the grant-date fair value of the award.

Compensation cost has been measured using the fair value of an award on the grant date and is recognized over the service period, which is usually the vesting period.

Advertising Expense

The Bank expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2023 and 2022 was $106,076 and $110,286, respectively.

Property and Equipment

Land is carried at cost. Bank premises and furniture and equipment are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10-40
Furniture and equipment	5-10
Software	3-5

Leasehold improvements are carried at cost and depreciated over the shorter of the life of the lease or the useful life of the improvements.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in losses on sales and write-downs of other real estate owned.

As of December 31, 2023 and 2022, the balance of other real estate owned includes one foreclosed residential real estate property recorded as a result of obtaining physical possession of the property. As of December 31, 2023, there was one residential real estate loan totaling $32,133 in the process of foreclosure.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) 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 (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Provision for income taxes is based on amounts reported in the statements of income (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income tax liability relating to unrealized gains (or the deferred tax asset in the case of unrealized losses) on investment securities available for sale is recorded in other assets. Such unrealized gains or losses is recorded as an adjustment to equity in the financial statements and not included in income determination until realized. Accordingly, the resulting deferred income tax liability or asset is also recorded as an adjustment to equity.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with a tax position taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management is not aware of any material uncertain tax positions and no liability has been recognized at December 31, 2023 or 2022. Interest and penalties associated with unrecognized tax benefits would be classified as additional interest expense or other expense, respectively, in the statement of income.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Basic and Diluted Earnings per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of those potential common shares. The Bank had no potentially dilutive instruments at December 31, 2023 or 2022.

Comprehensive Income (Loss)

Comprehensive income (loss) reflects the change in the Bank's equity arising from transactions and events other than investments by and distributions to stockholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of stockholders' equity rather than as income or expense, primarily unrealized gains and losses on investment securities available for sale.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under home equity arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Fair Value of Financial Instruments

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is 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, an "exit" price. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of an instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (this is, not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation techniques or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgement. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity’s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Bank does not expect the adoption of ASU 2023-09 to have a material impact on its financial statements.

Recently Adopted Accounting Standards

On January 1, 2023, the Bank adopted ASU No. 2016-13 “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” and related ASUs. Prior to adoption, the Bank followed applicable GAAP and used an incurred loss model to estimate an allowance for loan losses. The Bank also used a methodology to determine whether securities in an unrealized loss position were other-than-temporarily impaired and whether credit risks were present.

ASU-2016-13 makes significant changes to the accounting for credit losses on financial instruments presented on an amortized cost basis and disclosures about them. The new current expected credit loss (“CECL”) impairment model requires an estimate of expected credit losses, measured over the contractual life of an instrument, which considers historical experience, current conditions and reasonable and supportable forecasts of future economic conditions. The standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. ASU 2016-13 permits the use of estimation techniques that are practical and relevant to the Bank’s circumstances, as long as they are applied consistently over time and faithfully estimate expected credit losses in accordance with the standard.

The Bank applied the standard’s provisions as a cumulative-effect adjustment of $75,650, net of tax, to retained earnings as of January 1, 2023. On the adoption date, the allowance for credit losses (“ACL”) on loans increased from $1,150,202 to $1,234,628 and the ACL for unfunded commitments increased from $0 to $11,333. Based upon the nature and characteristics of our securities portfolio (including issuer-specific matters) at the adoption date, macroeconomic conditions and forecasts at that date, and other management judgments, adoption did not result in an ACL on securities available for sale. Results for reporting periods beginning after January 1, 2023 will be presented under Topic 326, while periods prior to January 1, 2023 will be reported in accordance with GAAP applicable for the time period.

Note 2. Restrictions on Cash

The Bank is typically required to maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. At December 31, 2023 and 2022, there was no minimum reserve requirement as a result of a rule adopted by the Federal Reserve in March 2020 eliminating the reserve requirement.

Note 3. Investment Securities

Debt securities have been classified in the balance sheets according to management's intent. The amortized cost, estimated fair value and unrealized gains and losses of investment securities are as follows:

	2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	$ 4,741,857	$ -	$ (492,511)	$ 4,249,346
Government sponsored enterprises	20,489,883	-	(1,775,644)	18,714,239
State and municipal bonds	33,639,027	5	(3,438,519)	30,200,513
Mortgage-backed securities	10,003,435	23,911	(824,565)	9,202,781
Other debt securities	12,489,304	1,502	(1,181,437)	11,309,369
Total securities available for sale	$ 81,363,506	$ 25,418	$ (7,712,676)	$ 73,676,248
Securities held to maturity:				
Other debt securities	$ 2,000,000	$ -	$ (118,827)	$ 1,881,173
Total securities held to maturity	$ 2,000,000	$ -	$ (118,827)	$ 1,881,173
Total securities	$ 83,363,506	$ 25,418	$ (7,831,503)	$ 75,557,421

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	$ 4,742,064	$ -	$ (569,710)	$ 4,172,354
Government sponsored enterprises	20,463,474	-	(2,146,477)	18,316,997
State and municipal bonds	37,145,776	5,714	(4,374,954)	32,776,536
Mortgage-backed securities	10,398,158	-	(944,430)	9,453,728
Other debt securities	13,491,671	-	(1,427,893)	12,063,778
Total securities available for sale	$ 86,241,143	$ 5,714	$ (9,463,464)	$ 76,783,393
Securities held to maturity:				
Other debt securities	$ 2,000,000	$ -	$ (109,864)	$ 1,890,136
Total securities held to maturity	$ 2,000,000	$ -	$ (109,864)	$ 1,890,136
Total securities	$ 88,241,143	$ 5,714	$ (9,573,328)	$ 78,673,529

Total proceeds from the sales, maturities, calls and paydowns amounted to $6,392,181 and $15,437,803 in 2023 and 2022, respectively. The Bank had realized gains of $16,525 for the year ended December 31, 2023 and no realized gains for the year ended December 31, 2022.

The Bank's investment in Federal Reserve Bank stock totaled $226,300 and $225,000 at December 31, 2023 and December 31, 2022. Federal Reserve Bank stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock other than the Federal Reserve Bank and member institutions. Therefore, when evaluating Federal Reserve Bank stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Bank does not consider this investment to be impaired at December 31, 2023 and no impairment has been recognized. Federal Reserve Bank stock is included in a separate line item on the balance sheet (Restricted securities, at cost) and is not part of the Bank's investment securities portfolio. The Bank's restricted securities also include an investment in Community Bankers Bank totaling $82,600 at both December 31, 2023 and 2022, which is carried at cost.

Note 3. Investment Securities, continued

On January 1, 2023, the Bank adopted ASC 326, which made changes to accounting for AFS debt securities whereby credit losses should be presented as an allowance, rather than as a write-down when management does not intend to sell and does not believe that it is more likely than not they will be required to sell prior to maturity. In addition, ASC 326 requires an ACL to be recorded on HTM debt securities measured at amortized cost. All securities information presented as of December 31, 2023 is in accordance with ASC 326. All securities information presented as of December 31, 2022 or a prior date is presented in accordance with previously applicable GAAP. For further discussion on the Bank's accounting policies and policy elections related to the accounting standard update refer to Note 1.

The following table details unrealized losses and related fair values in the Bank's investment securities portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2023 and December 31, 2022.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
U.S. Treasuries	$ -	$ -	$ 4,249,346	$ 492,511	$ 4,249,346	$ 492,511
Government sponsored enterprises	458,574	14,961	18,255,664	1,760,683	18,714,238	1,775,644
State and municipal bonds	1,214,243	1,651	28,886,265	3,436,868	30,100,508	3,438,519
Mortgage-backed securities	611,860	15,329	7,620,043	809,236	8,231,903	824,565
Other debt securities	-	-	10,807,020	1,181,437	10,807,020	1,181,437
	$ 2,284,677	$ 31,941	$ 69,818,338	$ 7,680,735	$ 72,103,015	$ 7,712,676
December 31, 2022						
U.S. Treasuries	$ 484,707	$ 13,647	$ 3,687,647	$ 556,063	$ 4,172,354	$ 569,710
Government sponsored enterprises	9,191,474	561,910	9,125,523	1,584,567	18,316,997	2,146,477
State and municipal bonds	17,641,826	1,218,972	12,995,194	3,155,982	30,637,020	4,374,954
Mortgage-backed securities	6,053,286	406,150	3,400,442	538,280	9,453,728	944,430
Other debt securities	8,706,415	576,205	3,357,363	851,688	12,063,778	1,427,893
	$ 42,077,708	$ 2,776,884	$ 32,566,169	$ 6,686,580	$ 74,643,877	$ 9,463,464
Securities held to maturity:						
Other debt securities	$ 1,890,136	$ 109,864	$ -	$ -	$ 1,890,136	$ 109,864
	$ 1,890,136	$ 109,864	$ -	$ -	$ 1,890,136	$ 109,864
	$ 43,967,844	$ 2,886,748	$ 32,566,169	$ 6,686,580	$ 76,534,013	$ 9,573,328

The Bank evaluates securities available for sale that are in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to the extent to which the fair value is less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2023, the Bank had 173 securities with a fair value of $73,984,188 in an unrealized loss position. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Bank will not have to sell any such securities before a recovery of cost. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the cost basis of the investments. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, Management believes that the unrealized losses are due to noncredit-related factors, including changes in interest rates and other market conditions. No allowance for credit losses on securities available for sale was recorded as of December 31, 2023.

Note 3. Investment Securities, continued

The scheduled maturities of securities available for sale at December 31, 2023 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 4,686,992	$ 4,646,585
Due in one year through five years	36,743,926	34,287,906
Due after five years through ten years	39,459,053	34,283,183
Due after ten years through fifteen years	473,535	458,574
	$ 81,363,506	$ 73,676,248

The Bank also owned one security with an amortized cost of $2,000,000 and fair value of $1,881,173 classified as held-to-maturity as of December 31, 2023. The security has a maturity in one year through five years.

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

Investment securities with market values of $4,312,870 and $3,725,859 at December 31, 2023 and 2022, respectively were pledged as collateral on public deposits and for other banking purposes as required or permitted by law.

Note 4. Property and Equipment

Components of Property and Equipment

Components of property and equipment and total accumulated depreciation at December 31, 2023 and 2022 are as follows:

	2023	2022
Land	$ 301,652	$ 264,049
Buildings and improvements	2,487,515	2,270,588
Furniture and equipment	1,600,935	1,486,620
Property and equipment, total	4,390,102	4,021,257
Less accumulated depreciation	(2,283,753)	(2,139,556)
Property and equipment, net	$ 2,106,349	$ 1,881,701

Depreciation expense was $144,197 and $140,326 during 2023 and 2022, respectively.

Note 5. Leases

The Bank records its leases in accordance with ASC 842. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the Balance Sheets. Lease liabilities represent the Bank's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Bank's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Bank's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

Note 5. Leases, continued

The Bank's long-term lease agreement is classified as an operating lease. This lease offers the option to extend the lease term and the Bank has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreement does not provide for residual value guarantees and has no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Bank's lease:

	December 31, 2023	December 31, 2022
Lease liabilities	$ 6,063	$ 14,882
Right-of-use assets	$ 6,063	$ 14,882
Weighted average remaining lease term	0.67 years	1.67 years
Weighted average discount rate	2.78%	2.78%

Lease cost	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Operating lease cost	$ 9,120	$ 9,120
Variable lease cost	-	-
Short-term lease cost	-	-
Total lease cost	$ 9,120	$ 9,120
Cash paid for amounts included in the measurements of lease liabilities	$ 9,120	$ 9,120

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Lease payments due	December 31, 2023
Twelve months ending December 31, 2024	$ 6,080
Total undiscounted cash flows	$ 6,080
Discount	(17)
Lease liabilities	$ 6,063

Note 6. Loans Receivable

The major components of loans in the balance sheets at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Commercial and industrial	$ 14,224	$ 13,049
Real estate:		
Construction and land development	6,490	5,664
1-4 family residential and multifamily	38,303	36,042
Nonfarm, nonresidential	23,221	24,250
Consumer	25,184	24,058
	107,422	103,063
Allowance for credit losses	(1,286)	(1,150)
	$ 106,136	$ 101,913

The above loan totals include deferred loan fees of $132 thousand and $141 thousand as of December 31, 2023 and 2022, respectively.

Overdrafts totaling $38,848 and $91,565 at December 31, 2023 and 2022, respectively, were reclassified from deposits to loans.

Included in the Commercial and industrial total above is $38,191 of SBA Paycheck Protection Loans (PPP) as of December 31, 2023 and 2022. Additionally, fees collected but not yet recognized through forgiveness of these loans totaled $5,129 and $7,327 as of December 31, 2023 and 2022, respectively.

Note 7. Allowance for Credit Losses

The allocation of the allowance for credit losses by loan components (in thousands) at December 31, 2023 and 2022 is as follows:

	Automobile	Commercial & Industrial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction	Consumer	Home Equity	Multifamily	Residential	Total
2023										
Allowance for credit losses:										
Beginning balance: December 31, 2022	$ 257	$ 131	$ 18	$ 10	$ 321	$ 101	$ 15	$ -	$ 297	$ 1,150
Adoption of ASU 2016-13	18	12	1	1	24	7	1	-	20	84
Charge-offs	(380)	(43)	-	-	-	(109)	-	-	(1)	(533)
Recoveries	45	-	-	-	-	64	-	-	1	110
Provision (recovery)	299	45	(8)	(4)	106	3	1	-	33	475
Ending balance: December 31, 2023	$ 239	$ 145	$ 11	$ 7	$ 451	$ 66	$ 17	$ -	$ 350	$ 1,286
Ending balance: individually evaluated	$ -	$ 34	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 34
Ending balance: collectively evaluated	$ 239	$ 111	$ 11	$ 7	$ 451	$ 66	$ 17	$ -	$ 350	$ 1,252
Loans receivable:										
Ending balance: December 31, 2023	$ 18,991	$ 14,224	$ 11,089	$ 12,132	$ 6,490	$ 6,193	$ 2,493	$ 551	$ 35,259	$ 107,422
Ending balance: individually evaluated	$ -	$ 348	$ -	$ 306	$ -	$ 296	$ -	$ -	$ 741	$ 1,691
Ending balance: collectively evaluated	$ 18,991	$ 13,876	$ 11,089	$ 11,826	$ 6,490	$ 5,897	$ 2,493	$ 551	$ 34,518	$ 105,731

Note 7. Allowance for Credit Losses, continued

	Construction & Land Development	1-4 Family Residential & Multifamily	Nonfarm, Nonresidential	Commercial & Industrial[1]	Consumer	Total
2022						
Allowance for loan losses:						
Beginning balance: January 1, 2022	$ 9	$ 327	$ 183	$ 194	$ 418	$ 1,131
Charge-offs	-	(4)	-	(20)	(352)	(376)
Recoveries	-	-	-	2	58	60
Provision	32	(61)	(8)	55	317	335
Ending balance: December 31, 2022	$ 41	$ 262	$ 175	$ 231	$ 441	$ 1,150
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ 77	$ -	$ 77
Ending balance: collectively evaluated for impairment	$ 41	$ 262	$ 175	$ 154	$ 441	$ 1,073
Loans receivable:						
Ending balance: December 31, 2022	$ 5,664	$ 36,042	$ 24,250	$ 13,049	$ 23,950	$ 102,955
Ending balance: individually evaluated for impairment	$ -	$ 870	$ -	$ 314	$ -	$ 1,184
Ending balance: collectively evaluated for impairment	$ 5,664	$ 35,172	$ 24,250	$ 12,735	$ 23,950	$ 101,771

[1] Includes PPP loans, which are guaranteed by the SBA and have no related allowance.

The following table presents impaired loans by class of loan (in thousands) as of December 31, 2022:

	Recorded[1] Investment	Upaid[2] Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2022					
With no related allowance recorded:					
Construction and land development	$ -	$ 402	$ -	$ -	$ -
1-4 family residential and multifamily	870	1,173	-	1,267	38
Nonfarm, nonresidential	-	-	-	-	-
Commercial and industrial	116	135	-	125	-
Consumer	-	-	-	-	-
	$ 986	$ 1,710	$ -	$ 1,392	$ 38
With an allowance recorded:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
1-4 family residential and multifamily	-	-	-	-	-
Nonfarm, nonresidential	-	-	-	-	-
Commercial and industrial	198	206	77	207	7
Consumer	-	-	-	-	-
	$ 198	$ 206	$ 77	$ 207	$ 7
Combined:					
Construction and land development	$ -	$ 402	$ -	$ -	$ -
1-4 family residential and multifamily	870	1,173	-	1,267	38
Nonfarm, nonresidential	-	-	-	-	-
Commercial and industrial	314	341	77	332	7
Consumer	-	-	-	-	-
	$ 1,184	$ 1,916	$ 77	$ 1,599	$ 45

[1] The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment and interest paid while a loan is in nonaccrual status.

[2] The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs.

Note 7. Allowance for Credit Losses, continued

The following table presents the amortized cost basis of collateral dependent loans by loan pool, which are individually evaluated to determine expected credit losses, and the related ACLL allocated to those (in thousands):

	December 31, 2023			
	Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
Commercial and industrial	$ 88	$ 260	$ 348	$ 34
Commercial real estate, owner occupied	306	-	306	-
Residential	741	-	741	-
Consumer	296	-	296	-

Credit Quality Indicators

The Bank has established a standard risk grading (also referred to as loan grade) system to assist management and lenders in their analysis and supervision of the loan portfolio. Loan officers assign a grade to each credit at its inception; this grade is changed as required thereafter based on the borrower's financial condition, payment performance, and other material information. The Bank uses the following definitions for risk ratings:

Pass Loans that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

Special Mention Borrowers currently posing a higher than normal risk. Loans are protected, but have potentially developing weaknesses, which could include stale credit or some degree of difficulty in servicing debt, increased leverage, marginal profitability or interim unprofitability, etc. indicative of a possible transition in financial condition. Risk concern has heightened, but concern has not escalated to a point where reclassification of the asset to impaired is warranted. Loans graded Special Mention are also considered pass.

Substandard Relationships which have one or more well defined credit weaknesses, impairing collectability and necessitating workout. Factors might include: inadequate repayment capacity; severe erosion of equity; likely reliance on collateral for repayment, which may be questionable; guarantors with limited resources; obvious deterioration in financial condition/adverse trends; possibility of loss or protracted workout exists if immediate corrective action is not taken.

Doubtful Relationship displays many of the same weaknesses as a substandard; however, those risk factors are more dominant. Collectability is severely jeopardized and loss potential is extreme; however, there are sufficiently compelling reasons which may positively impact the collectability to warrant deferral of a loss classification until outcome is determined.

Loss Asset has been determined to have such little value/collectability likelihood that continuing to carry the asset is not justified even though some future recovery potential may exist.

Note 7. Allowance for Credit Losses, continued

The following table details the amortized cost of the classes of loans by credit quality indicator and year of origination as of December 31, 2023 (in thousands).

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	
	2019	**2020**	**2021**	**2022**	**2023**	**Prior**			**Total**
December 31, 2023									
Automobile									
Pass	$ 434	$ 1,984	$ 3,205	$ 4,069	$ 9,026	$ 81	$ -		
Substandard	9	18	-	6	-	-	-		
Doubtful	50	20	58	31	-	-	-		
Total	**$ 493**	**$ 2,022**	**$ 3,263**	**$ 4,106**	**$ 9,026**	**$ 81**	**$ -**	**$ -**	**$ 18,991**
Current-period gross writeoffs	**$ 5**	**$ 65**	**$ 89**	**$ 157**	**$ 34**	**$ 30**			
Commercial and industrial									
Pass	$ 655	$ 1,339	$ 1,538	$ 3,568	$ 5,293	$ 252	$ 1,440		
Substandard	-	26	-	25	-	76	-		
Doubtful	-	-	-	-	-	-	12		
Total	**$ 655**	**$ 1,365**	**$ 1,538**	**$ 3,593**	**$ 5,293**	**$ 328**	**$ 1,452**	**$ -**	**$ 14,224**
Current-period gross writeoffs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 43**		
Commercial real estate, non-owner occupied									
Pass	$ 268	$ 2,575	$ 1,702	$ 3,569	$ 1,459	$ 1,516	$ -		
Total	**$ 268**	**$ 2,575**	**$ 1,702**	**$ 3,569**	**$ 1,459**	**$ 1,516**	**$ -**	**$ -**	**$ 11,089**
Commercial real estate, owner occupied									
Pass	$ 1,197	$ 587	$ 3,060	$ 608	$ 482	$ 5,831	$ 113		
Substandard	-	-	-	-	-	254	-		
Total	**$ 1,197**	**$ 587**	**$ 3,060**	**$ 608**	**$ 482**	**$ 6,085**	**$ 113**	**$ -**	**$ 12,132**
Construction									
Pass	$ 16	$ -	$ 1,093	$ 3,809	$ 1,440	$ 132	$ -		
Total	**$ 16**	**$ -**	**$ 1,093**	**$ 3,809**	**$ 1,440**	**$ 132**	**$ -**	**$ -**	**$ 6,490**
Consumer									
Pass	$ 75	$ 239	$ 404	$ 1,710	$ 3,086	$ 5	$ 656		
Substandard	-	-	18	-	-	-	-		
Total	**$ 75**	**$ 239**	**$ 422**	**$ 1,710**	**$ 3,086**	**$ 5**	**$ 656**	**$ -**	**$ 6,193**
Current-period gross writeoffs	**$ -**	**$ 17**	**$ -**	**$ 66**	**$ 26**	**$ -**			
Home equity									
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,493		
Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,493**	**$ -**	**$ 2,493**
Multifamily									
Pass	$ -	$ -	$ -	$ 551	$ -	$ -	$ -		
Total	**$ -**	**$ -**	**$ -**	**$ 551**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 551**
Residential									
Pass	$ 3,072	$ 5,489	$ 4,871	$ 6,411	$ 5,588	$ 9,368	$ -		
Substandard	32	81	66	-	-	219	-		
Doubtful	-	38	-	-	-	24	-		
Total	**$ 3,104**	**$ 5,608**	**$ 4,937**	**$ 6,411**	**$ 5,588**	**$ 9,611**	**$ -**	**$ -**	**$ 35,259**
Current-period gross writeoffs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1**			
Total	**$ 5,808**	**$ 12,396**	**$ 16,015**	**$ 24,357**	**$ 26,374**	**$ 17,758**	**$ 4,714**	**$ -**	**$ 107,422**

Note 7. Allowance for Credit Losses, continued

The following represents by class, loans by risk grade at December 31, 2022 (in thousands).

	Total	Pass Credits	Substandard	Doubtful	Loss
2022					
Construction and development	$ 5,664	$ 5,664	$ -	$ -	$ -
1-4 family residential and multifamily	36,042	35,535	434	73	-
Nonfarm, nonresidential	24,250	24,048	151	51	-
Commercial and industrial	13,049	12,753	83	213	-
Consumer	24,058	23,439	55	564	-
Total	$ 103,063	$ 101,439	$ 723	$ 901	$ -
	100.0%	98.4%	0.7%	0.9%	0.0%

The following represents by class, an aging analysis of the Bank's accruing and non-accruing loans as of December 31, 2023 and 2022 (in thousands).

	30-89 Days Past Due	90 Days Plus Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
December 31, 2023						
Automobile	$ 853	$ 373	$ 1,226	$ 17,765	$ 18,991	$ 101
Commercial and industrial	266	319	585	13,639	14,224	129
Commercial real estate, non-owner occupied	-	-	-	11,089	11,089	-
Commercial real estate, owner occupied	-	254	254	11,878	12,132	-
Construction	-	-	-	6,490	6,490	-
Consumer	110	51	161	6,032	6,193	25
Home equity	85	19	104	2,389	2,493	19
Multifamily	-	-	-	551	551	-
Residential	930	398	1,328	33,931	35,259	17
Total	$ 2,244	$ 1,414	$ 3,658	$ 103,764	$ 107,422	$ 291
December 31, 2022						
Construction and development	$ 7	$ -	$ 7	$ 5,657	$ 5,664	$ -
1-4 family residential and multifamily	1,232	433	1,665	34,377	36,042	125
Nonfarm, nonresidential	79	51	130	24,120	24,250	-
Commercial and industrial	110	375	485	12,564	13,049	80
Consumer	1,165	554	1,719	22,231	23,950	121
Total	$ 2,593	$ 1,413	$ 4,006	$ 98,949	$ 102,955	$ 326

Note 7. Allowance for Credit Losses, continued

Nonaccrual Loans (in thousands)

Nonaccrual loans as of December 31, 2023 and 2022 are as follows:

	CECL December 31, 2023 Nonaccrual Loans			Incurred Loss December 31,2022 Nonaccrual Loans
	With No Allowance	With An Allowance	Total	
Automobile	$ 272	$ -	$ 272	$ 602
Commercial and industrial	189	-	189	296
Commercial real estate, owner occupied	254	-	254	201
Consumer	26	-	26	3
Residential	382	-	382	426
Total	$ 1,123	$ -	$ 1,123	$ 1,528

Troubled Debt Restructurings

As part of the Bank's loan modification program to borrowers experiencing financial difficulty, the Bank may provide concessions to minimize the economic loss and improve long-term loan performance and collectability. The Bank did not make any loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023. The Bank had no TDRs as of December 31, 2022. The Bank adopted ASU 2022-02 on January 1, 2023 which eliminated the accounting guidance for TDR.

ACL on Unfunded Commitments

The following table presents the balance and activity in the ACL for unfunded commitments for year ended December 31, 2023:

	Allowance for Credit Losses on Unfunded Commitments Year Ended December 31, 2023
Balance, December 31, 2022	$ -
Adoption of ASU 2016-13	11
Provision for credit losses	54
Balance, December 31, 2023	$ 65

Note 8. Deposits

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2023 and 2022 was $13.3 million and $16.5 million, respectively. At December 31, 2023 the scheduled maturities of time deposits are as follows:

2024	$	50,903,747
2025		11,847,152
2026		7,379,351
2027		6,123,445
2028		2,730,870
	$	78,984,565

Included in time deposits are deposits acquired through a third party ("brokered deposits") totaling $9,075,000 and $5,000,000 at December 31, 2023 and December 31, 2022, respectively.

Note 9. Other Borrowings

Lines of credit

The Bank has established an unsecured Line of Credit for $6,500,000 with First National Bankers' Bank in Birmingham, Alabama and an unsecured Line of Credit for $3,000,000 with Community Bankers Bank in Richmond, Virginia. Funds were advanced once for each line during 2023 for testing purposes. No balance was outstanding at December 31, 2023 and 2022. The lender may withdraw these lines at their discretion.

Note 10. Fair Value of Financial Instruments

Fair Value of Financial Instruments

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 and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also established a fair value hierarchy which prioritize the valuation inputs into three broad levels.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Bank's financial instruments as of December 31, 2023 and 2022. These tables exclude financial instruments for which the carrying amount approximates fair value including cash and cash equivalents, bank-owned life insurance, restricted securities, accrued interest receivable, and accrued interest payable. For short-term financial assets such as cash and cash equivalents, federal funds sold/purchased and accrued interest, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

Note 10. Fair Value of Financial Instruments, continued

Fair Value of Financial Instruments, continued

			Fair Value Measurements		
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023					
Financial Instruments - Assets					
Loans, net of allowance for credit losses	$ 106,136	$ 102,233	$ -	$ -	$ 102,233
Investment securities available for sale	73,676	73,676	-	73,676	-
Investment securities held-to-maturity	2,000	1,881	-	-	1,881
Financial Instruments – Liabilities					
Deposits	$ 181,782	$ 181,801	$ -	$ 180,906	$ -
December 31, 2022					
Financial Instruments - Assets					
Loans, net of allowance for loan losses	$ 101,913	$ 95,791	$ -	$ -	$ 95,791
Investment securities available for sale	76,783	76,783	-	76,783	-
Investment securities held-to-maturity	2,000	1,890	-	-	1,890
Financial Instruments – Liabilities					
Deposits	$ 184,491	$ 184,431	$ -	$ 184,431	$ -

GAAP provides a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans).

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. GAAP 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 impaired 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.

Fair Value Hierarchy

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 levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Note 10. Fair Value of Financial Instruments, continued

Fair Value Hierarchy, continued

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 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, Treasury securities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Individually Evaluated Collateral-Dependent Loans

Loans for which repayment is substantially expected to be provided through the operation or sale of collateral are considered collateral dependent, and are valued based on the estimated fair value of the collateral, less estimated costs to sell at the reporting date, where applicable. Accordingly, collateral dependent loans are classified within Level 3 of the fair value hierarchy.

Other Real Estate Owned

Foreclosed assets are initially measured at fair value less cost to sell establishing a new cost basis, based on an appraisal conducted by an independent, licensed appraiser outside of the Bank. If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Bank because of marketability, then the fair value is considered Level 3. Foreclosed assets are measured at fair value on a nonrecurring basis. Any initial fair value adjustment is charged against the Allowance for Loan Losses. Subsequent fair value adjustments are recorded in the period incurred and included in Gains/losses on sales and write-downs of other real estate owned on the Statements of Income.

Note 10. Fair Value of Financial Instruments, continued

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	Total	Level 1	Level 2	Level 3
December 31, 2023				
U.S. Treasuries	$ 4,249,346	$ -	$ 4,249,346	$ -
Government sponsored enterprises	18,714,239	-	18,714,239	-
State and municipal bonds	30,200,513	-	30,200,513	-
Mortgage-backed securities	9,202,781	-	9,202,781	-
Other debt securities	11,309,369	-	11,309,369	-
Investment securities available for sale	73,676,248	-	73,676,248	-
Total assets at fair value	$ 73,676,248	$ -	$ 73,676,248	$ -
December 31, 2022				
U.S. Treasuries	$ 4,172,354	$ -	$ 4,172,354	$ -
Government sponsored enterprises	18,316,997	-	18,316,997	-
State and municipal bonds	32,776,536	-	32,776,536	-
Mortgage-backed securities	9,453,728	-	9,453,728	-
Other debt securities	12,063,778	-	12,063,778	-
Investment securities available for sale	76,783,393	-	76,783,393	-
Total assets at fair value	$ 76,783,393	$ -	$ 76,783,393	$ -

There were no liabilities measured at fair value on a recurring basis at December 31, 2023 and 2022.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Bank may be required from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the tables below.

December 31, 2023	Total	Level 1	Level 2	Level 3
Collateral dependent loans, net	$ 58,100	$ -	$ -	$ 58,100
Other real estate owned, net	33,278	-	-	33,278

December 31, 2022	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 120,800	$ -	$ -	$ 120,800
Other real estate owned, net	161,326	-	-	161,326

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2023 and 2022.

Note 10. Fair Value of Financial Instruments, continued

Level 3 Valuation Techniques

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of December 31, 2023 and 2022, the valuation techniques and the significant unobservable inputs used in the fair value measurements are as follows:

	Fair Value at December 31, 2023	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Collateral Dependent Loans				
Commercial and industrial	58,100	Appraised Value	Discounts on appraisals	24%-94%(68%)
			Selling costs	6%
Other Real Estate Owned	33,278	Discounted Appraised Value	Discount on appraisal	18%
			Selling costs	6%

	Fair Value at December 31, 2022	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Impaired Loans				
Commercial and industrial	120,800	Appraised Value	Discounts on appraisals	8%-100%(22%)
			Selling costs	6%
Other Real Estate Owned	161,326	Appraised Value	Selling costs	10%

Note 11. Benefit Plans

Defined Contribution Plan

The Bank has adopted a profit-sharing plan pursuant to Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees who have completed 3 months of service. Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. The Bank makes non-discretionary contributions of up to 3% of eligible employee’s compensation. In addition, the Bank may make additional contributions at the discretion of the Board of Directors. The Bank’s contributions were $46,699 and $48,177 for the years ended December 31, 2023 and 2022, respectively.

Stock Awards Plan

During 2005, the Board of Directors adopted a Stock Awards Plan. Under terms of the plan 200,000 shares of the Bank’s common stock may be issued in the form of stock awards to employees as additional compensation and to members of the Board of Directors in lieu of director’s fees. Awards vest immediately when the common stock is issued and the fair value associated with the stock is expensed at time of issuance. Sales of stock issued as a result of the stock award are governed by the securities laws concerning unregistered securities. As of December 31, 2023, 23,646 shares had been issued under the plan, leaving 176,354 shares ungranted. The stock award expense as a result of the grants was $43,888 and $45,775 during 2023 and 2022, respectively. Award date fair value was $26.00 and $25.00 per share during 2023 and 2022, respectively.

Note 12. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense (all federal) are as follows for the years ended December 31:

	2023	2022
Current	$ 173,184	$ 318,280
Deferred tax expense	35,656	59,475
Income tax expense	$ 208,840	$ 377,755

Rate Reconciliation

A reconciliation of expected income tax expense computed at the statutory federal income tax rate to income tax expense included in the statements of income is as follows for the years ended December 31:

	2023	2022
Tax at statutory federal rate	$ 274,299	$ 441,355
Tax exempt interest, net of disallowed portion	(33,442)	(43,587)
Other	(32,017)	(20,013)
Income tax expense	$ 208,840	$ 377,755

Deferred Income Tax Analysis

The significant components of net deferred tax assets (all federal) at December 31, 2023 and 2022 are summarized as follows:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 193,500	$ 166,879
Allowance for credit losses on off-balance sheet	13,683	-
Deferred loan fees	27,795	29,561
Other real estate owned	-	16,968
Core deposit intangible	2,628	2,255
Lease liability	1,273	3,125
Interest on nonaccrual loans	18,323	19,977
Unrealized loss on securities available for sale	1,614,324	1,986,127
Deferred tax asset	1,871,526	2,224,892
Deferred tax liabilities		
Accretion on bond discount	$ (69,883)	$ (42,414)
Depreciation	(55,771)	(47,622)
Goodwill	(1,166)	(957)
Right-of-use asset	(1,273)	(3,125)
Deferred tax liability	(128,093)	(94,118)
Net deferred tax asset	$ 1,743,433	$ 2,130,774

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2023, management believes it will fully realize 100% of the Bank's deferred tax asset. The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. The Bank's policy is to classify any interest or penalties recognized as interest expense or noninterest expense, respectively. Years ended December 31, 2020 through December 31, 2023 remain open for audit for all major jurisdictions.

Note 13. Commitments and Contingencies

Litigation

In the normal course of business, the Bank may be involved in various legal proceedings. Management believes that any liability resulting from such proceedings will not be material to the financial statements.

Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheets. The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. A summary of the Bank’s commitments at December 31, 2023 and 2022 is as follows (in thousands):

	2023	2022
Commitments to extend credit	$ 18,100	$ 14,987
Standby letters of credit	757	830
	$ 18,857	$ 15,817

Financial Instruments with Off-Balance Sheet Risk, continued

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 of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate 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. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

Concentrations of Credit Risk

Substantially all of the Bank’s loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Bank’s market area and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 6. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

The Bank from time to time has cash and cash equivalents on deposit with financial institutions which exceed federally insured limits. As of December 31, 2023, cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $923.

Note 14. Regulatory Restrictions

Dividends

The Bank, as a Virginia banking corporation, may pay dividends only out of its retained earnings. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure financial soundness of the bank.

Capital Requirements

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing the regulatory capital. Management believes as of December 31, 2023, the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration is required. At year end 2023 and 2022, the most recent regulatory notifications categorize the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement was 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2023, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Note 14. Regulatory Restrictions, continued

Capital Requirements, continued

The Bank's actual capital amounts and ratios are also presented in the table (in thousands).

	Actual		Minimum	
	Amount	Ratio	Amount	Ratio
December 31, 2023				
Tier I Capital to Average Assets	$ 22,975	11.00%	$ 18,790	9.000%
December 31, 2022				
Tier I Capital to Average Assets	$ 22,900	11.59%	$ 17,779	9.000%

Note 15. Transactions with Related Parties

The Bank has entered into transactions with its directors, significant shareholders and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Aggregate loan transactions with related parties were as follows:

	2023	2022
Balance, beginning	$ 5,152,705	$ 4,630,578
New loans and advances	2,049,974	2,391,836
Repayments and other reductions	(1,727,282)	(1,869,709)
Balance, ending	$ 5,475,397	$ 5,152,705

Deposit with related parties were $4,156,298 and $2,944,555 at December 31, 2023 and 2022, respectively.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Highlands Community Bank

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Highlands Community Bank (the Bank) as of December 31, 2023 and 2022, the related statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, including all related amendments.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Collectively Evaluated Loans

Description of the Matter
As further described in Note 1 (Organization and Summary of Significant Accounting Policies) to the financial statements, the Bank changed its method of accounting for credit losses on January 1, 2023, due to the adoption of Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, as amended. The allowance for credit losses on loans (ACL) is a valuation allowance that represents management's best estimate of expected credit losses on loans measured at amortized cost considering available information relevant to assessing collectability over the loans' contractual terms. Loans which share common risk characteristics are pooled and collectively evaluated by the Bank using historical data, as well as assessments of current conditions and reasonable and supportable forecasts of future conditions. The Bank's ACL related to collectively evaluated loans represented $1,251,437 of the total recorded ACL of $1,285,836 million as of December 31, 2023. The collectively evaluated ACL consists of quantitative and qualitative components.

The quantitative component consists of loss estimates derived from a Lifetime Probability of Default (PD)/Loss Given Default (LGD) Model which is a model that uses PD and LGD rates recognized over the life of loans in a pool historically and uses those rates to forecast defaults and losses as the loans go through their lifecycle. The PD and LGD rates are calculated by age of the loans in the segment. These estimates consider large amounts of data in tabulating significant inputs to the calculations, including default, and loss given default, and require complex calculations as well as management judgment in the selection of appropriate inputs. In addition to the quantitative component, the collectively evaluated ACL also includes a qualitative component which aggregates management's assessment of available information relevant to assessing collectability that is not captured in the quantitative loss estimation process. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management exercised significant judgment when estimating the ACL on collectively evaluated loans. We identified the estimation of the collectively evaluated ACL as a critical audit matter as auditing the collectively evaluated ACL involved especially complex and subjective auditor judgment in evaluating management's assessment of the inherently subjective estimates.

How We Addressed the Matter in Our Audit
The primary audit procedures we performed to address this critical audit matter included:

- Obtaining an understanding of the Bank's process for determining its ACL on collectively evaluated loans, including the underlying methodology and significant inputs to the calculation.
- Substantively testing management's process for measuring the collectively evaluated ACL, including:
  - Evaluating the conceptual soundness of the methodology for determining the collectively evaluated ACL.
  - Testing significant inputs to the calculation, including the probability of default and loss given default, and the data on which those were based.
  - Evaluating the pool of collectively evaluated loans for completeness.
  - Evaluating management's determination of the qualitative adjustments, including evaluating data on which the qualitative adjustments were based as well as the relative magnitude of the adjustments.
  - Testing the mathematical accuracy of the ACL for collectively evaluated loans, including calculation of the underlying quantitative component as well as application of qualitative factors to the collectively evaluated loan balances.

/s/ Yount, Hyde & Barbour, P.C.

We have served as the Bank's auditor since 2016.

Winchester, Virginia
March 22, 2024

Management's Discussion and Analysis

To accurately understand the change in Highlands Community Bank's (the "Bank") financial statements, the following information is provided. The Bank commenced operations on September 16, 2002. The Bank currently serves Alleghany County, Virginia, the City of Covington, Virginia, the Town of Clifton Forge, Virginia, Bath County, Virginia and surrounding areas. As a state-chartered bank, which is a member of the Federal Reserve System, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions, Federal Reserve Board, and the Federal Deposit Insurance Corporation.

The bank acquired a branch from Carter Bank & Trust in Mitchelltown, Virginia in May 2018.

This commentary provides an overview of the Bank's financial condition, changes in financial condition and results of operations for 2023 and 2022. The following discussion should assist readers in the analysis of the accompanying financial statements.

Critical Accounting Policies

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The notes to the audited financial statements included herein contain a summary of the significant accounting policies. Management believes the Bank's policies with respect to the methodology for the determination of the allowance for credit losses involve a higher degree of complexity and require management to make difficult and subjective judgments that often require assumptions or estimates about highly uncertain matters. Accordingly, management considers the policies related as critical.

The allowance for credit losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) Accounting for contingencies, which requires that losses be accrued when they are probable of occurring and estimable, and (ii) Accounting for credit losses, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market, and the Bank's investment in the loan.

The allowance for credit losses has three basic components: (i) the formula allowance, (ii) the specific allowance, and (iii) the qualitative allowance. Each of the components is determined based upon estimates that can and do change when the actual events occur. The formula allowance uses a historical loss view as an indicator of future losses and, as a result, could differ from the loss incurred in the future. However, since this history is updated with the most recent loss information, the errors that might otherwise occur are mitigated. The specific allowance uses various techniques to arrive at an estimate of loss. Historical loss information, expected cash flow and fair market value of collateral are used to estimate these losses. The use of these values is inherently subjective and our actual losses could be greater or less than the estimates. The qualitative allowance captures losses that are attributable to various economic environmental factors or changes in industry or geographic sectors whose impact on the portfolio have occurred but have yet to be recognized in either the formula or specific allowance. For further information regarding the allowance for credit losses, see Notes 1 and 7 to the financial statements.

Management's Discussion and Analysis

Summary of Results of Operations

Operating Income

The Bank had net income for the year ended December 31, 2023 of $1,097,346 compared to net income of $1,723,937 for the year ended December 31, 2022, an decrease of 36.4%. The decrease was primarily of net interest income after provision for credit losses being $478,463 less, year over year, as an increase in yields on loans, investments and deposits with banks was more than offset by the Bank's increased cost of funds. Additionally, an increase of $160,335 in salaries and employee benefits and a $154,001 increase in data processing expense contributed to net income being down from the previous year.

Return on average assets was 0.55% and return on average stockholders' equity was 7.18% in 2023. Basic and diluted earnings per share were $0.74 and $1.16 for 2023 and 2022, respectively.

Net Interest Income

The principal source of earnings for the Bank is net interest income. Net interest income is defined as the difference between interest and fees generated by earning assets and the cost of funds supporting those assets. As such, net interest income represents the gross profit from the Bank's lending, investment and funding activities.

A large number of variables interact to effect net interest income. Included are variables such as changes in mix and volume of earning assets and interest-bearing liabilities, market interest rates and the statutory Federal tax rate. It is management's ongoing policy to maximize net interest income through the development of balance sheet and pricing strategies while maintaining appropriate risk levels as set by the Board of Directors.

The Bank's net interest income totaled $6,503,425 and $6,788,753 for 2023 and 2022, respectively, representing an decrease of $285,328 or 4.2% in 2023. This decrease was the result of rising deposit rates.

Noninterest Income and Expenses

Noninterest income increased from $809,392 to $870,285, an increase of $60,893 or 7.5% from 2022 to 2023. This was mostly due to an increase of $40,265 in other service charges and fees. Additionally, the Bank experienced a $16,525 increase in gains on sales of investment securities available for sale in 2023.

Noninterest expenses increased to $5,539,389 in 2023 from $5,161,453 in 2022, an increase of $377,936 or 7.3%. Salaries and employee benefits increased $160,335, or 6.7%, from the previous year which was mostly a result of budgeted salary increases. Data processing expense increased $154,001 or 15.3%. In addition, other expense experienced a $76,233 increase, or 8.9%, resulting from expenses relating to the discontinued credit card program along with a debit rewards program impacted net income.

Income Taxes

The Bank provided $208,840 for income taxes during 2023, compared to a provision for income taxes of $377,755 for 2022. The Bank's effective tax rates were 16.0% and 18.0% for 2023 and 2022, respectively. The lower effective tax rate during 2023 is the result of an increase in expenses relative to income while the portion of non-taxable income remained relatively unchanged.

Summary of Statements of Financial Condition

Assets

At December 31, 2023, the Bank had total assets of $199.5 million, representing a decrease of $1.0 million or 0.5% over the December 31, 2022 balance of $200.5 million.

Summary of Statements of Financial Condition, continued

Loans

The net loan portfolio totaled $106.1 million and $101.8 million for 2023 and 2022, respectively, representing an increase of $4.3 million or 4.3%. Consistent with its focus on providing community based financial services, the Bank generally does not make loans outside its principal market regions. By policy it does not originate or purchase leveraged loans or loans to foreign entities or individuals.

The Bank had individually evaluated loans of $1.1 million at December 31, 2023. This was 1.06% of gross loans outstanding, as compared to $1.5 million and 1.50% of gross loans outstanding in 2022. The level of individually evaluated loans was the result of problem loan scenarios encountered during the normal course of business. The Bank actively monitors its loan portfolio for the early recognition of individually evaluated loans.

Provision and Allowance for Credit Losses

The provision for credit losses is a charge against earnings necessary to maintain the allowance for credit losses at a level consistent with management's evaluation of the credit quality and risk of the loan portfolio. The Bank maintains an allowance which management believes represents an accurate estimate of expected losses inherent in the Bank's loan portfolio. To achieve this goal, the provision for credit losses must be sufficient to cover loans charged off, loans identified as individually evaluated and the expected losses that exist in the portfolio. In determining the adequacy of the allowance for credit losses, management uses a methodology, which specifically identifies and reserves for high-risk loans. Loans in non-accrual status and over ninety days past due are considered in this evaluation as well as other loans, which may be a potential loss.

From the Bank's inception, management and the Board have endeavored to provide for an adequate allowance. The 2023 provision was $473,866 as the allowance increased to $1,285,836 at December 31, 2023 as compared to $1,150,202 at December 31, 2022. There was a provision of $335,000 in 2022. Management and the Board of Directors believe that the allowance at year-end was adequate relative to the current levels of risk in the portfolio. The allowance for credit losses as a percentage of gross loans was 1.20% and 1.12% at December 31, 2023 and 2022, respectively.

The allowance increased by $84,426 on January 1, 2023 due to the adoption of ASU-2016-13. The general reserve component of the allowance for credit losses increased in 2023 as compared to December 31, 2022 as a result of loan growth as well as increasing loss rates due to an increase in chargeoffs during the year. This was partially off-set by a decrease in specific reserves as a result of one commercial loan being charged off that previously carried an allowance. Unemployment numbers currently remain very low but is expected to increase as the federal reserve holds interest rates higher in an effort to slow the economy and combat high levels of inflation.

Loan chargeoffs totaled $533 thousand in 2023 and $376 thousand in 2022. The Bank had recoveries of $110 thousand in 2023 and $60 thousand in 2022.

Summary of Statements of Financial Condition, continued

Securities and Federal Funds Sold

At year-end 2023, investment securities available for sale totaled $73.7 million compared to $76.8 million on December 31, 2022, a decrease of $3.1 million or 4.1%. In addition, the Bank has $2 million of subordinated debt which is classified as held-to-maturity. There were no federal funds sold as of December 31, 2023 and 2022.

Deposits

Deposits totaled $181.8 million and $184.5 million at December 31, 2023 and 2022, respectively, representing a decrease of $2.7 million or 1.5%. Non-interest bearing accounts decreased $0.9 million to $37.7 million, or 2.4%. Interest-bearing accounts decreased from $145.9 million to $144.1 million, or 1.2%.

Stockholders' Equity

Future growth and expansion of the Bank is dictated by its capital base. The adequacy of the Bank's capital is reviewed by management on an ongoing basis with reference to the size, composition and quality of the Bank's asset and liability levels and consistent with regulatory requirements and industry standards. Management seeks to maintain a capital structure that assures an adequate level to support anticipated asset growth and absorb potential losses. The Bank significantly exceeds all minimum regulatory capital requirements.

During 2023, equity increased to $16.9 million. The Bank had net operating income of $1.1 million and paid a dividend of $904 thousand. This, along with a net increase of $1.4 million in unrealized gains and losses on the Bank's available for sale investment portfolio, resulted in a net increase in equity of $1.6 million. Management believes the Bank has sufficient capital to fund its operations on an ongoing basis.

Liquidity

The objective of the Bank's liquidity management policy includes providing adequate funds to meet the needs of depositors and borrowers at all times, as well as providing funds to meet the basic needs for ongoing operations, to allow funding of longer-term investment opportunities and meet regulatory requirements. Sufficient assets are maintained on a short-term basis to meet the liquidity demands anticipated by management. The most immediate and efficient source of liquidity are short-term investments, which include federal funds sold and securities maturing within one year. The Bank also has credit facilities of $9.5 million available as a source of liquidity.

The liquidity ratio (the level of liquid assets divided by total deposits plus short-term liabilities) was 44% and 46% at December 31, 2023 and 2022, respectively. Management believes that the Bank has sufficient liquidity on a short-term basis to meet any funding needs it may have and expects that its long-term liquidity needs can be achieved through deposit growth, however there can be no assurance that such growth will develop.

Statistical Disclosures

The following tables provide additional information for the years ended December 31, 2023 and 2022.

Table 1. Average Balances and Interest Rates

Years ended December 31,
(In thousands)

	2023			2022		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
Assets:						
Interest-earning assets:						
Deposits in other banks	$ 6,402	$ 187	2.92%	$ 8,348	$ 166	1.99%
Taxable investment securities	67,857	1,831	2.70%	68,228	1,666	2.44%
Nontaxable investment securities	7,979	166	2.08%	8,965	193	2.15%
Loans [3], [4]	104,824	6,462	6.16%	101,287	5,868	5.79%
Total interest-earning assets	187,062	8,646	4.62%	186,828	7,893	4.22%
Noninterest-earning assets:						
Cash and due from banks	1,676			2,338		
Premises and equipment	2,088			1,925		
Other assets	8,501			7,706		
Allowance for loan losses	(1,266)			(1,177)		
Total assets	$ 198,061			$ 197,620		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest checking	$ 19,928	74	0.37%	$ 20,286	72	0.35%
Savings deposits	52,717	224	0.42%	60,678	190	0.31%
Time deposits	25,410	491	1.93%	27,180	328	1.21%
Large denomination deposits	45,262	1,312	2.90%	35,724	496	1.39%
Federal funds purchased	673	42	6.24%	421	18	4.28%
Total interest-bearing liabilities	143,990	2,143	1.49%	144,289	1,104	0.77%
Noninterest-bearing liabilities:						
Demand deposits	37,911			34,839		
Other liabilities	872			825		
Total liabilities	182,773			179,953		
Stockholders' equity	15,288			17,667		
Total liabilities and stockholders' equity	$ 198,061			$ 197,620		
Net interest earnings		$ 6,503			$ 6,789	
Net interest spread [1]			3.13%			3.45%
Net interest margin [2]			3.48%			3.63%

(1) Net interest spread is the difference between the average interest rate received on earning assets and the average interest rate paid for interest-bearing liabilities.
(2) Net interest margin is calculated by dividing net interest earnings by total average earning assets.
(3) Average loan balances include nonaccrual loans.
(4) Interest income includes deferred loan fees.

Table 2. Rate/Volume Variance Analysis

	2023 Compared to 2022			2022 Compared to 2021		
		Increase (Decrease) Due To			Increase (Decrease) Due To	
	Total	Rate	Volume	Total	Rate	Volume
December 31, (In thousands)						
Interest-earning assets						
Deposits in other banks	$ 21	$ 42	$ (21)	$ 53	$ 66	$ (13)
Taxable investment securities	165	174	(9)	567	157	410
Nontaxable investment securities	(27)	(6)	(21)	(8)	(9)	1
Loans	594	384	210	(163)	40	(203)
Total	753	594	159	449	254	195
Interest-earning liabilities						
Interest checking	2	3	(1)	15	5	10
Savings deposits	34	54	(20)	45	3	42
Time deposits	163	182	(19)	(58)	(52)	(6)
Large denomination deposits	816	656	160	(57)	(63)	6
Federal funds purchased	24	10	14	18	18	-
Total	1,039	905	134	(37)	(89)	52
Net interest income	$ (286)	$ (311)	$ 25	$ 486	$ 343	$ 143

Table 3. Average Asset Mix

December 31, (In thousands)	2023		2022	
	Average Balance	%	Average Balance	%
Interest-earning assets				
Deposits in other banks	$ 6,402	3.23%	$ 8,348	4.22%
Taxable investment securities	67,857	34.26	68,228	34.52
Nontaxable investment securities	7,979	4.03	8,965	4.54
Loans	104,824	52.93	101,287	51.26
Total interest-earning assets	187,062	94.45	186,828	94.54
Noninterest-earning assets				
Cash and due from banks	1,676	0.85	2,338	1.18
Premises and equipment	2,088	1.05	1,925	0.97
Other assets	8,501	4.29	7,706	3.90
Allowance for credit losses	(1,266)	(0.64)	(1,177)	(0.59)
Total assets	$ 198,061	100%	$ 197,620	100%

Table 4. Loan Mix and Maturity Schedule

	Due in One Year Or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years Through Fifteen Years	After Fifteen Years	Total
December 31, 2023 (In Thousands)						
Automobile	$ 202	$ 11,015	$ 7,774	$ -	$ -	$ 18,991
Commercial and industrial	2,321	9,511	2,356	36	-	14,224
Commercial real estate non-owner occupied	-	2,650	1,427	3,950	3,062	11,089
Commercial real estate owner occupied	331	2,582	1,344	3,303	4,572	12,132
Construction	4,028	95	277	1,037	1,053	6,490
Consumer	1,498	4,292	403	-	-	6,193
Home equity	101	341	483	1,568	-	2,493
Multifamily	-	-	-	551	-	551
Residential	1,527	1,143	3,407	9,774	19,408	35,259
Total	$ 10,008	$ 31,629	$ 17,471	$ 20,219	$ 28,095	$ 107,422
Loans with fixed interest rates:						
Automobile	$ 202	$ 11,015	$ 7,774	$ -	$ -	$ 18,991
Commercial and industrial	920	9,399	2,356	36	-	12,711
Commercial real estate non-owner occupied	-	2,435	407	964	151	3,957
Commercial real estate owner occupied	218	261	-	-	2,001	2,480
Construction	4,028	95	-	-	-	4,123
Consumer	880	4,292	372	-	-	5,544
Home equity	-	-	-	-	-	-
Multifamily	-	-	-	551	-	551
Residential	1,513	145	102	-	1,098	2,858
Total	$ 7,761	$ 27,642	$ 11,011	$ 1,551	$ 3,250	$ 51,215
Loans with floating interest rates:						
Automobile	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and industrial	1,401	112	-	-	-	1,513
Commercial real estate non-owner occupied	-	215	1,020	2,986	2,911	7,132
Commercial real estate owner occupied	113	2,321	1,344	3,303	2,571	9,652
Construction	-	-	277	1,037	1,053	2,367
Consumer	618	-	31	-	-	649
Home equity	101	341	483	1,568	-	2,493
Multifamily	-	-	-	-	-	-
Residential	14	998	3,305	9,774	18,310	32,401
Total	$ 2,247	$ 3,987	$ 6,460	$ 18,668	$ 24,845	$ 56,207

Table 5. Investment Securities

December 31, 2023	Amortized Cost									
	One Year or Less		After One Year Through Five Years		After Five Year Through Ten Years		After Ten Year Through Fifteen Years		Total	
	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)
Investment securities available for sale:										
U.S. Treasuries	$ -	-	$ 3,499,490	1.42%	$ 1,242,367	1.22%	$ -	-	$ 4,741,857	1.37%
Government sponsored enterprises	998,134	2.08%	10,056,326	1.80%	8,961,887	2.34%	473,535	4.14%	20,489,882	2.11%
State and municipal bonds	3,688,857	3.15%	9,084,832	2.48%	20,865,338	2.16%	-	-	33,639,027	2.36%
Mortgage-backed securities	-	-	6,593,399	2.68%	3,410,037	2.43%	-	-	10,003,436	2.60%
Other debt securities	-	-	7,509,879	3.04%	4,979,424	2.27%	-	-	12,489,303	2.73%
Total	$ 4,686,991	2.92%	$ 36,743,926	2.34%	$ 39,459,053	2.21%	$ 473,535	4.14%	$ 81,363,505	2.32%
Investment securities held-to-maturity:										
Other debt securities	$ -	-	$ 2,000,000	3.56%	$ -	-	$ -	-	$ 2,000,000	3.56%
Total	$ -	-	$ 2,000,000	3.56%	$ -	-	$ -	-	$ 2,000,000	3.56%

(1) Investment yields are calculated on a tax-equivalent basis using a tax rate of 21%.

Table 6. Deposit Mix

December 31, (In thousands)	2023		2022	
	Average Balance	%	Average Balance	%
Interest-bearing deposits:				
Interest checking	$ 19,928	11.0%	$ 20,286	11.3%
Savings deposits	52,717	29.1	60,678	34.0
Time deposits	25,410	14.0	27,180	15.2
Large denomination deposits	45,262	25.0	35,724	20.0
Total interest-bearing deposits	143,317	79.1	143,868	80.5
Noninterest-bearing deposits	37,911	20.9	34,839	19.5
Total deposits	$ 181,228	100%	$ 178,707	100%

Table 7. Large Denomination Deposits $250,000 and Over

Analysis of time deposits in excess of $250,000 at December 31, 2023:

Time remaining to maturity:	
Three months or less	$ 4,478,038
Over three months through six months	2,769,050
Over six months through twelve months	5,683,545
Over twelve months	9,434,332
Total time deposits in excess of $250,000	$ 22,364,965

Table 8. Credit Losses

Year ended December 31, 2023 (In thousands)

Balance at beginning of year	$ 1,150
Adoption of ASU 2016-13	84
Provision charged to expense	474
	1,708
Loans charged off:	
Automobile	(380)
Commercial and industrial	(43)
Consumer	(109)
Residential	(1)
Total chargeoffs	(533)
Recoveries of loans previously charged off:	
Automobile	45
Consumer	64
Residential	1
Total recoveries	110
Net chargeoffs	(423)
Balance at end of year	$ 1,285
Total Allowance for Credit Losses to Total Loans	1.20%

Year ended December 31, 2022 (In thousands)

Balance at beginning of year	$ 1,131
Provision charged to expense	335
	1,466
Loans charged off:	
Commercial and industrial	(20)
1-4 family residential and multifamily	(4)
Consumer	(352)
Total chargeoffs	(376)
Recoveries of loans previously charged off:	
Commercial	2
Consumer	58
Total recoveries	60
Net chargeoffs	(316)
Balance at end of year	$ 1,150
Total Allowance for Loan Losses to Total Loans	1.12%

Table 9. Allocation of the Allowance for Credit Losses

December 31, 2023 (In thousands)

Balance at end of period applicable to:	Amount	% [1]
Automobile	$ 238	18.5%
Commercial and industrial	145	11.3
Commercial real estate non-owner occupied	11	0.9
Commercial real estate owner occupied	7	0.5
Construction	451	35.1
Consumer	66	5.2
Home equity	17	1.3
Residential	350	27.2
Total	$ 1,285	100.0%

December 31, 2022 (In thousands)

Balance at end of period applicable to:	Amount	% [1]
Commercial and industrial	$ 231	12.7%
Construction and development	41	5.5
1-4 family residential and multifamily	262	35.0
Nonfarm, nonresidential	175	23.5
Consumer	441	23.3
Total	$ 1,150	100.0%

[1] Represents the percentage of loans in each category.

Table 10. Nonaccrual Loans

December 31, 2023 (In thousands)

Automobile	$ 272
Commercial and industrial	189
Commercial real estate owner occupied	255
Consumer	26
Residential	382
Total nonaccrual loans	$ 1,124
Nonaccrual Loans to Total Loans	1.06%
Total Allowance for Credit Losses to Nonaccrual Loans	114.4%

December 31, 2022 (In thousands)

Commercial and industrial	$ 296
1-4 family residential and multifamily	426
Nonfarm, nonresidential	202
Consumer	604
Total nonaccrual loans	$ 1,528
Nonaccrual Loans to Total Loans	1.48%
Total Allowance for Loan Losses to Nonaccrual Loans	75.3%

Table 11. Loan Chargeoffs

	Net Charge-Offs	Average Balance	% of Average Balance
December 31, 2023 (In thousands)			
Automobile	$ 335	$ 18,255	1.84%
Commercial and industrial	43	13,567	0.32%
Commercial real estate non-owner occupied	-	11,415	-
Commercial real estate owner occupied	-	12,294	-
Construction	-	6,174	-
Consumer	45	6,397	0.70%
Home equity	-	2,437	-
Multifamily	-	276	-
Residential	-	34,009	-
Total	$ 423	$ 104,824	0.40%
December 31, 2022 (In thousands)			
Construction and land development	$ -	$ 3,447	-
1-4 family residential and multifamily	4	35,261	0.01%
Nonfarm, nonresidential	-	24,366	-
Commercial and industrial	18	13,936	0.13%
Consumer	294	24,277	1.21%
Total	$ 316	$ 101,287	0.31%

Board of Directors

Ronald S. Bowers .... *Owner*
Alleghany Highlands Mechanical, Inc.

Debra Byer .... *Clerk of the Court*
Alleghany County

John S. Franson .... *President & Owner*
Alleghany Asphalt & Construction, Inc.

James N. Garcia .... *Former Owner*
Standard Printing & Office Supply, Inc.

Daniel C. Lawson .... *Chief Financial Officer*
Highlands Community Bank

Nicholas J. Moga .... *Chairman of the Board*
President - PCSS, LLC

David M. Oliver .... *President & Owner*
Oliver Distributing Company, Inc.

Michael H. Persinger .... *Vice President & Chief Financial Officer*
Dawn Warehousing, Inc. & Kemper Properties, LLC

H.C. Rhodes, Jr. .... *Interim President & CEO*
Highlands Community Bank

Lisa Schoppmeyer .... *President*
Schoppmeyer Financial

Staff

Megan Angle .... *Teller*

Kaitlyne Baker .... *Teller*

Brittany Belcher .... *Customer Service*

Amy Boguess .... *Teller*

Brandon Caldwell .... *Vice President-Loans*

Donna Craft .... *Loan Officer*

Kathy Dobson .... *Branch Manager-Clifton Forge*

Christian Filips .... *IT Administrator & Project Coordinator*

Joy D. Fridley .... *Vice President & Loan Administration Officer*

Tammy B. Graham .... *Assistant Cashier*

Jacob Grimes .... *Director of Human Resources*

Joy Hale .... *Loan Administration*

Pamela Kincaid .... *Customer Service*

Daniel C. Lawson .... *Chief Financial Officer*

Ryan Lockhart .... *Loan Officer*

Nikki Lowry .... *Teller Supervisor*

Debra Martin .... *Teller*

Laura McLain .... *Collections Specialist*

Kim Moses .... *Customer Service*

Kristin Nicely .... *Compliance Officer*

Leslie P. Nicely .... *Security Officer & BSA Officer*

H.C. Rhodes, Jr. .... *Interim President & CEO*

Christina Roark .... *Loan Administration*

Kimberly Robertson .... *Teller*

Donna A. Rock .. *Assistant Vice President & Operations Officer*

Josh Roldan .... *Teller*

Melissa Shifflett .... *Branch Manager-Hot Springs*

Sierra Snyder .... *Teller*

Gina Tingler .... *Loan Officer*

Britney Via .... *Teller*

Stockholder Information

Annual Meeting

The annual meeting of stockholders will be held April 30, 2024 at 7pm in our lobby at our main office, 307 Thacker Avenue, Covington, Virginia 24426.

Requests for Information

Requests for information should be directed to Mr. Daniel C. Lawson, CFO, at Highlands Community Bank, Post Office Box 1059, Covington, Virginia, 24426; telephone (540) 962-2265.

Independent Registered Public Accounting Firm

Yount, Hyde & Barbour, P.C.
Certified Public Accountants
50 South Cameron Street
PO Box 2560
Winchester, VA 22604

Legal Counsel

Gentry Locke Rakes & Moore
Attorneys at Law
Post Office Box 40013
Roanoke, Virginia 24022

Federal Deposit Insurance Corporation

The Bank is a member of the FDIC. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

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(540) 862-2265

9008 Sam Snead Hwy.
Hot Springs, VA 24445
(540) 839-3568

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